



Solving BC's Affordability Crisis in Child Care

FINANCING THE \$10 A DAY PLAN

By Igluka Ivanova | JULY 2015



CCPA
CANADIAN CENTRE
for POLICY ALTERNATIVES
BC Office

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July 2015

By Igluka Ivanova

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Summary

CANADA HAS NO NATIONAL EARLY CHILDHOOD EDUCATION and care program. The federal government provides cash transfers to families with young children and offers a tax credit for child care expenses, but these measures do not increase the availability of quality child care or make these services more affordable. Provincially, BC invests less in early education and care than the Canadian average, which is already one of the lowest among developed nations and far short of the minimum public investment levels recommended by UNICEF and the OECD.

The result is a fragmented patchwork of child care programs that fails to meet the needs of many families. The problems with this patchwork approach include:

- **High costs:** BC has the second highest fees in Canada, with median fees in 2012 ranging from \$760 to \$1,047 per month depending on the child's age. Subsidies for low-income parents have been frozen for ten years, while fees have risen faster than inflation.
- **Long wait lists:** BC has enough regulated child care spaces for only 27 per cent of children under six, and the provincial government's Early Years Strategy will only create room for another 5 per cent of children (at most) by 2021.
- **Women forced to abandon paid work and career goals:** The lack of affordable child care spaces is a significant barrier for mothers who want to return to work or pursue education; this contributes to gender inequality and weakens the BC economy. It is estimated that work-life conflict among employees costs BC businesses more than \$600 million per year.
- **Reliance on unregulated child care:** Because of high costs and lack of spaces, some working parents turn to unregulated child care, with no training requirements, health and safety standards, monitoring or oversight.
- **Low wages for early childhood educators:** Their median wage is 19 per cent lower than that of BC workers overall, which leads to high turnover and chronic staff shortages, and contributes to financial insecurity among the families of educators, many of whom are women with children of their own.

It doesn't have to be this way. A universal \$10 a day child care program would solve the affordability crisis and ensure all families could access quality early childhood education and care.

The lack of affordable child care spaces is a significant barrier for mothers who want to return to work or pursue education; this contributes to gender inequality and weakens the BC economy.

THE \$10 A DAY CHILD CARE PLAN

The \$10 a Day Child Care Plan is a framework for transforming the existing patchwork of programs into a universal, high quality, affordable child care system that integrates early learning and care. The plan was developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC, based on extensive international research and a cross-province community consultation process, and has been widely endorsed.

To implement the \$10 a day plan, public investments are required in three main areas:

- **Increased capacity**, ensuring access to care for all families who need it (participation would be optional and open to all).
- **Improved affordability**, with fees set at \$10 a day for full-time and \$7 a day for part-time programs (waived for families with income under \$40,000).
- **Higher quality**, through low child-to-staff ratios, higher education levels and fair compensation for staff, and better monitoring and accountability mechanisms.

A universal \$10 a day child care program would solve the affordability crisis and ensure all families could access quality early childhood education and care.

FINANCING THE \$10 A DAY PLAN

UBC researchers estimate that a fully phased-in \$10 a day child care plan would require \$1.5 billion in additional public funding to cover operating costs, after accounting for parent fees. These upfront costs have been a significant barrier to governments' willingness to implement a child care plan in BC and across Canada, despite the well-documented social and economic benefits.

However, phasing in the \$10 a day plan over a period of 10 years would allow governments to provide immediate relief to families while scaling up the full plan (and its associated costs) in stages.

Child care benefits all of us

The benefits of quality child care programs documented in international and Canadian research include:

- Promotes healthy child development and increases educational achievement for all children, with particular benefits for the most vulnerable.
- Allows parents, and in particular mothers, to return to the workforce after having a child, to work closer to full-time hours and to hold better jobs. This also boosts the economy.
- As women are able to earn more income, they gain financial independence and their families are less likely to live in poverty.
- Benefits businesses by reducing stress and absenteeism among employees who are parents and enabling female employees to return to work after parental leave.
- Sets us up on a path for a stronger economy in the future, as more children are supported to reach their full potential.

These benefits are large, long-lasting and broadly shared by everyone in society.

Moreover, recent research from Quebec shows that a publicly funded child care system would be self-financing to a large extent. This is because accessible and affordable child care allows more women with young children to return to work and to work closer to full-time hours. More women working means a stronger economy, with direct benefits to government coffers from higher tax revenues, reduced social assistance for families with children, and lower reliance on other income-tested benefits.

Quebec introduced a publicly funded, universal, low-cost child care program in 1997. It has many similarities to the \$10 a day plan, and by many measures is a resounding success. It has allowed parents to balance the demands of work and family with less stress, helped an estimated 70,000 women return to the workforce, and reduced poverty rates among single-parent families.

Economist Pierre Fortin and his colleagues at the University of Sherbrook estimate that Quebec’s child care program has added billions to the provincial economy and returns \$1.47 to government coffers for every \$1 invested.

If the economic benefits of the \$10 a day child care program in BC are similar to those in Quebec, BC could expect an almost immediate boost in economic activity. We estimate that the increased workforce participation of mothers of young children would grow BC’s economy by \$3.9 billion per year, and would generate approximately \$1.3 billion in revenues to the provincial and federal governments (once fully phased in).

In other words, the women who benefit the most from the program by being able to return to the workforce or transition from part-time to full-time work would cover a large share of the costs through the taxes they pay directly and the economic activity they generate in the local economy (their now higher family incomes become revenues for local businesses that are able to sell more, expand, employ more staff, etc.).

If the economic benefits of the \$10 a day child care program in BC are similar to those in Quebec, BC could expect an almost immediate boost in economic activity.

Federal-provincial partnership—the ideal solution

Given that the boost in tax revenues generated by a public child care program would flow to both the federal and provincial governments, it makes sense to share the costs.

A joint federal-provincial investment in child care in BC would almost pay for itself, generating 86 cents in government revenues for every dollar invested in the program, lowering the remaining public cost to only \$200 million per year. This is a very small cost relative to the size of the provincial and federal budgets.

Estimated costs and benefits of a \$10 a day child care program in BC to the provincial and federal governments

Total new public funding needed (after \$10 a day parent fees)	\$1.5 billion
Estimated increase in revenues to the BC government due to more women working (results in economic growth, more tax revenues, and less use of income-tested benefits)	\$630 million
Estimated increase in revenues to the federal government due to more women working	\$668 million
Net new public investment needed after accounting for higher federal and provincial revenues (assumes federal-provincial partnership on creation of \$10 a day child care)	\$202 million
Net new public investment required by the BC government in the absence of federal support	\$870 million

Let's solve BC's affordability crisis in child care

CURRENTLY, WITH NO PLAN

High fees + Ineffective tax credits

- = Not enough spaces
- = Stressful & unaffordable (\$9,700+ per year per child)
- = Many women who want to work can't
- = Low wages for early childhood educators
- = Gender inequality
- = Lost economic opportunities

\$10 A DAY CHILD CARE PLAN

Affordable fees + More women work and pay taxes + Small tax increases

- = Spaces for all who need them
- = Less stress and families save thousands per year
- = Women who want to work can
- = Fair wages for early childhood educators
- = More gender equality
- = Stronger economy

A \$10 a day child care plan benefits families, communities and the economy. tinyurl.com/10solution

BASED ON MEDIAN BC CHILD CARE FEES, CANADIAN CENTRE FOR POLICY ALTERNATIVES – BC OFFICE.

A provincial child care plan without federal support

While a federal-provincial partnership would be ideal, Quebec's experience demonstrates that it is also possible for a province to implement and run a child care program on its own.

Without federal participation, BC would need to raise \$870 million per year to fund the ongoing operations of an entirely provincial \$10 a day program. The amount is higher because the federal tax benefits could not be counted in the financing plan.

The good news is that BC can afford to make this investment in children and families: we are in a solid fiscal position with a manageable debt-to-GDP ratio and we have some of the lowest provincial tax rates in Canada. Small increases that bring BC's tax rates closer to the average for other provinces could easily raise the needed funds.

Our proposal is structured to raise the needed funds in stages (given the \$10 a day program would be phased in over 10 years) and in a way that reduces inequality, makes BC's tax system more fair, and reflects the broadly shared economic and social benefits of having a public child care system.

A joint federal-provincial investment in child care in BC would almost pay for itself, generating 86 cents in government revenues for every dollar invested in the program.

FINANCING \$10 A DAY CHILD CARE IN BC WITHOUT FEDERAL SUPPORT

Families that directly benefit from \$10 a day child care will pay a share of the program costs via affordable \$10 a day fees (waived for families with incomes under \$40,000 a year). The remaining \$1.5 billion cost of a fully phased-in program could be financed by the direct returns generated to the provincial government, and a staged series of tax reforms (introduced gradually over a 10-year period). Here’s how it works:

The bottom line:
There is no reason
BC cannot move
forward immediately
with a universal \$10
a day child care plan.



BC’s current approach to early childhood education and care—with its unaffordable fees, insufficient spaces and low wages for early childhood educators—is unfair and costly. High child care costs put pressure on families with young children at a time in their life when they are most stretched for resources instead of spreading out the costs over their working careers through slightly higher income taxes. High upfront fees are a de facto tax on mothers’ wages, creating barriers to work, compromising women’s economic independence, and undermining the financial security of families.

The bottom line: There is no reason BC cannot move forward immediately with a universal \$10 a day child care plan. It would save families with young children thousands of dollars per year, boost our economy, provide access to quality early learning experiences for all children whose parents want it, and share the costs broadly across all sectors of society.

Introduction

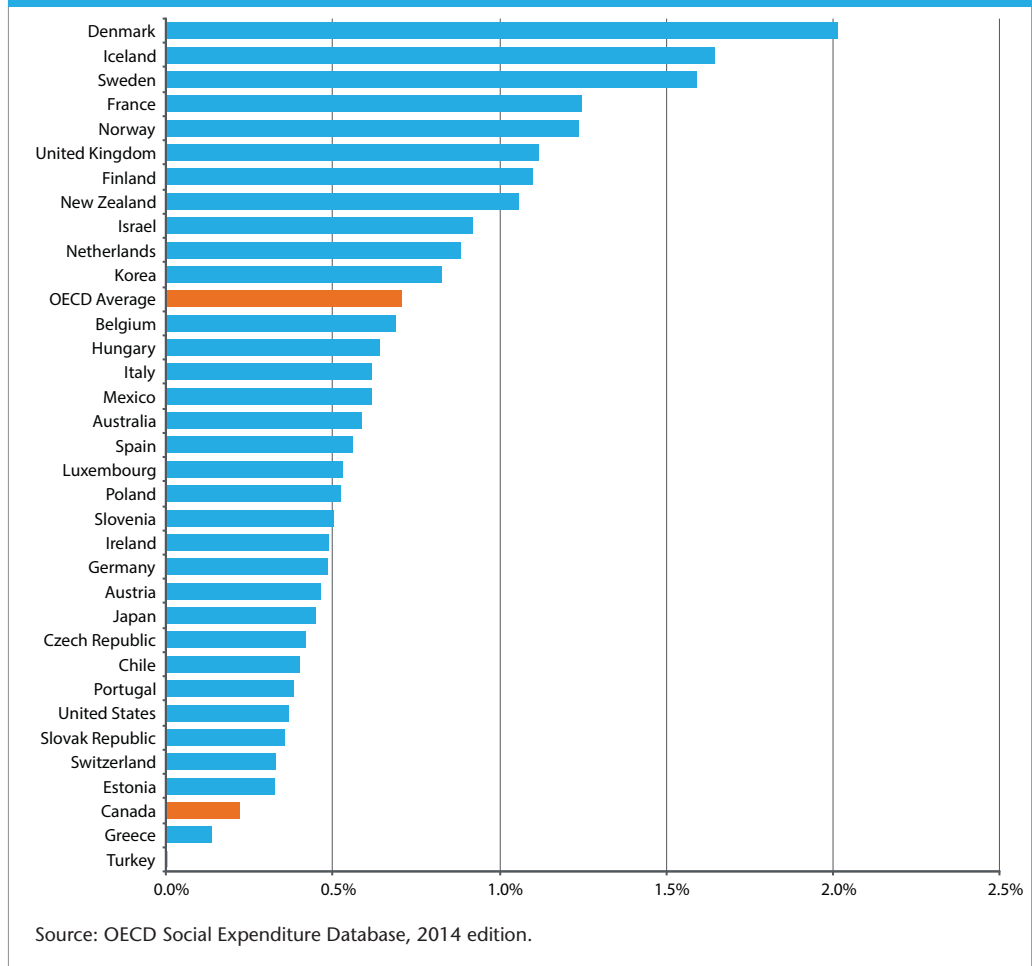
A LARGE BODY OF RESEARCH from neuroscience and social sciences has shown just how critical the first few years of life are for brain development, health and lifelong learning.¹ There is growing recognition that public policy can and should better support children in their most vulnerable and formative years.² This has led many, including child care advocates, women's rights groups, physicians' organizations, social policy experts and economists, to call for increased public investment in the first six years of a child's life to improve child well-being, health and education. The Organisation for Economic Co-operation and Development (OECD) and UNICEF have recommended a minimum target for public spending on early childhood education and care services of 1 per cent of a country's gross domestic product (GDP).³

Yet, as a country, Canada continues to invest very little in our children before they start school. Canada has no national early childhood education and care program. Since the federal government scrapped the early learning and child care agreements with the provinces in 2006, Canada's public investment in early child care has remained around 0.22 per cent of GDP, a third of the OECD average and far short of the recommended international benchmark of 1 per cent of GDP.⁴ The Canadian public investment figure includes Quebec's expenditures on its \$7 per day child care program, which pulls the national average up significantly. It is estimated that Quebec accounts for 60 per cent of the public spending on early childhood education and care in Canada.

There is growing recognition that public policy can and should better support children in their most vulnerable and formative years.

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- 1 The University of British Columbia's Human Early Learning Partnership (HELP) and Harvard University's Center on the Developing Child are just two of the many research initiatives around the world that have contributed to this large body of research. See their websites for the latest developments in the science of early child development.
 - 2 This is not new. OECD published its first comprehensive report on early childhood education and care, *Starting Strong*, in 2001. Follow-up *Starting Strong* reports followed in 2006 and 2012. See also UNICEF 2008.
 - 3 This public investment benchmark is primarily for "out-of-home, centre-based child care rather than informal, home-based or neighbourhood day-care" and does not include funding for a broader range of programs that are also important for supporting vulnerable children such as prenatal programs for at-risk mothers or programs aimed at supporting good parenting (UNICEF 2008, page 8).
 - 4 This includes spending on provincial child care subsidies as well as on federal and provincial child care tax deductions. Kershaw and Anderson (2011) estimate that adding expenditures on kindergarten to the total would increase Canada's spending on early education and care programs to 0.34 per cent of GDP (2008), which would put us slightly ahead of Estonia and Switzerland but would still leave us at the bottom of the pack.

Figure 1: Early childhood education and care expenditures as a share of GDP, 2011



Our low level of investment in early childhood education and care puts us near the bottom of our industrialized country peers.

Canada spends some public funds on cash transfers to families with young children, such as the Canada Child Tax Benefit and the Universal Child Care Benefit. However, these have not resulted in wider availability of quality early childhood and education opportunities for Canadian children, nor have they improved the affordability of available services. Cash transfers are unlikely to reliably yield the large social and economic benefits for children, families, women and their communities that have been linked to quality early learning and care services.

Our low level of investment in early childhood education and care puts us near the bottom of our industrialized country peers (only Turkey and Greece spend less out of 34 OECD countries). At the top of the list are countries like Denmark, Iceland, Sweden, Finland, France and Norway, with over 1.2 per cent of GDP invested in early childhood education and care programs.⁵

The lack of federal leadership and support in this area has been disappointing given the weight of the international evidence. The good news is that Canada is a federation in which provinces have considerable power. In the absence of federal leadership, individual provinces could create their own early childhood education and care programs, just as Quebec has done.

Beginning in 1997, Quebec launched a publicly funded, universal, low-cost child care program. The program provides subsidized child care services covering about half of all pre-school age

⁵ OECD 2014b.

Quality child care is early childhood education

In casual conversation, *child care* is sometimes used to refer to *babysitting*, or basic child-minding whose main objective is to ensure that children are kept safe while their parents are not available. This is not how the word is used in this report.

The international evidence suggests that there is no hard-and-fast distinction between quality child care and early education programs. The best early childhood programs are the ones that seamlessly integrate learning and care. They go beyond basic child-minding and provide experiences that support children's healthy development and learning. They are led by early childhood educators who are well educated and have the skills to design and deliver an enriched educational experience that is age-appropriate and provides a good start for young children (OECD 2012).

In this report, the terms *child care* and *early childhood education and care* are used interchangeably to refer to an integrated early education and child care program, like the one envisioned in the *Community Plan for a Public System of Integrated Early Care and Learning* developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC (also known as the \$10 a day child care plan).

children in the province and is very popular with parents. By many measures it has been a resounding success, allowing parents to balance the demands of work and family with less stress, helping an estimated 70,000 women return to the workforce, reducing poverty rates among single-mother families and adding billions to Quebec's economy.⁶ However, demand still exceeds the number of spaces available, and some concerns have been raised about quality (these are briefly discussed later in this report on page 21).

Outside of Quebec, however, quality early childhood education and care programs remain very expensive for parents, prohibitively so for many lower- and modest-income families, especially those headed by single mothers. And even for those who are able to pay the high prices, quality spaces are few and far between, leaving many parents scrambling to make informal care arrangements or forcing mothers to stay out of the workforce and depriving many children of quality early learning experiences that could give them a better start in life.

This study examines how British Columbia could implement and finance a publicly funded, universal child care program on its own. It uses the model of the *Community Plan for a Public System of Integrated Early Care and Learning*, developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC, also known as the \$10 a Day Plan.

The study begins with an overview of the growing consensus on the economic and social benefits of quality child care, which motivates the need for increased public investment. We then briefly review the current state of early education and care in BC, highlighting the large public investment gap that exists in our province. A brief description of the key elements of the \$10 a day child care plan for BC follows. We draw on the Quebec experience with implementing a similar low-fee publicly funded child care system in the late 1990s to estimate the potential economic benefits of increases in women's employment as a result of implementing the \$10 a day child care plan in BC and quantify the associated increases in government revenues. Our analysis shows that a quality

This study examines how British Columbia could implement and finance a publicly funded, universal child care program on its own.

6 Fortin et al. 2012, 2013.

child care program would partly pay for itself in the short run by allowing more mothers to join or remain in the workforce and work more hours as desired. Finally, we develop a set of concrete revenue-generating options the provincial government could use to raise the funds needed to make the upfront investment in quality child care in the absence of federal support.

The analysis presented in this report builds a strong case for a national child care strategy with federal and provincial cost sharing. However, we find that a quality, affordable provincial child care program could also be comfortably financed by the BC government alone, with the necessary funds raised in an equitable way that improves tax fairness. Given the well-established benefits of quality child care for children and families, its importance for promoting social inclusion and gender equity and the broad-based gains for employers, governments and the economy, we conclude that the implementation of \$10 a day child care represents a wise investment of public funds and should be made a priority for BC.

The economic and social benefits of investing in quality child care

THE ACADEMIC LITERATURE overwhelmingly finds that high-quality early childhood education and care promotes healthy child development and increases educational achievement for all children in developed countries, with particular benefits to the most vulnerable.⁷ These programs have the dual benefit of enhancing the human capital of the future workforce and improving social inclusion, both of which result in greater well-being, lower rates of crime and other social problems and better economic performance as more children are able to reach their full potential. A recent report by TD Bank's economics team summarizes some of the most compelling evidence on the large and long-lasting economic benefits of early childhood programs.⁸

There is also considerable evidence that affordable and accessible child care programs would benefit the economy by allowing parents of young children, primarily mothers, to return to the workforce after having a child.⁹ Comparative studies of industrialized countries find that in countries where child care is publicly funded (making it affordable and widely available), women are more likely to participate in the workforce, to work closer to full-time hours and to hold better jobs.¹⁰ Publicly

High-quality early childhood education and care promotes healthy child development and increases educational achievement for all children in developed countries, with particular benefits to the most vulnerable.

7 The OECD has extensively studied the benefits of early childhood education and care programs across developed countries. OECD 2011 provides a concise literature review and links to other publications. For a comprehensive literature review with a particular focus on implications for Canada and BC, see Centre for Spatial Economics 2009 and Goelman et al. 2008. Much of the US research has focused on the high returns of early child care and education interventions targeted to the most disadvantaged children; see for example Heckman 2008.

8 TD Economics 2012.

9 Ibid.

10 Hegewisch and Gornick 2011; Pettit and Hook 2009.

Financial independence allows women to leave abusive relationships, access education and take control of their own lives, moving us closer to gender equity and social justice.

funded child care has also been found to reduce the wage gap between women with and without children, the “motherhood wage penalty.”¹¹

Moreover, the research shows that an accessible and affordable quality child care program can improve the economic independence of mothers.¹² Financial independence allows women to leave abusive relationships, access education and take control of their own lives, moving us closer to gender equity and social justice. Recent research from Quebec shows that the introduction of a publicly funded child care program in the late 1990s resulted in more income in the hands of mothers and changed the pattern of spending in households, with more spending on goods and services related to children’s well-being, such as health and education.¹³ This suggests that investing in child care may improve children’s well-being not only via the learning opportunities provided by the programs but also by increasing the economic independence of their mothers.

The evidence further demonstrates that the broadly based social and economic benefits of quality child care programs are higher than the private returns to the individual family participating in the program. This is the main economic rationale for public investment in child care: too few children participate in quality child care programs without public support. Children miss out on experiences that could improve their health and educational outcomes in the future, and our economy misses out on the contributions of mothers who would like to work but are forced to stay home by the lack of affordable, quality care options for their children.

11 Misra et al. 2011.

12 Gender equity and labour force participation of women with children are driven by a number of factors, including women’s education, cultural attitudes and other family policies such as parental leave and family tax policies. However, both cross-country and single-country research find that child care has a significant impact on women’s participation in the workforce, even after all these other factors have been taken into account (Jaumotte 2004).

13 Haeck et al. 2014.

The state of early childhood education and care in BC

BC INVESTS LESS IN EARLY EDUCATION AND CARE than the Canadian average, which itself is one of the lowest among its peer countries. BC invested an estimated 0.16 per cent of GDP in early learning and child care programs for children younger than six years in 2012/13.¹⁴ This represents an increase from 2002/03, when BC invested only 0.12 per cent of GDP in early childhood programs (on the heels of significant funding cuts for child care in 2001). Despite recent increases, BC's public investment levels fall far short of what is needed and have not increased since the 2008/09 recession. If we also include the public expenditures on full-day kindergarten for five-year-olds (introduced in 2011),¹⁵ BC's total public investment increases to 0.29 per cent of GDP—just over one-quarter of OECD and UNICEF's recommended minimum of 1 per cent of GDP.

Instead of an integrated system of early learning and care services, BC has a fragmented patchwork of child care programs that does not meet the needs of many families. The high costs and long waitlists for a space in regulated child care are significant barriers for mothers who want to go back to work or pursue education or skill-training programs. Without affordable care for their children, many women are forced to abandon their career aspirations and withdraw from the labour force, and businesses lose skilled employees who don't return after parental leave. Others must resort to using unregulated child care, which is not subject to oversight or set standards.

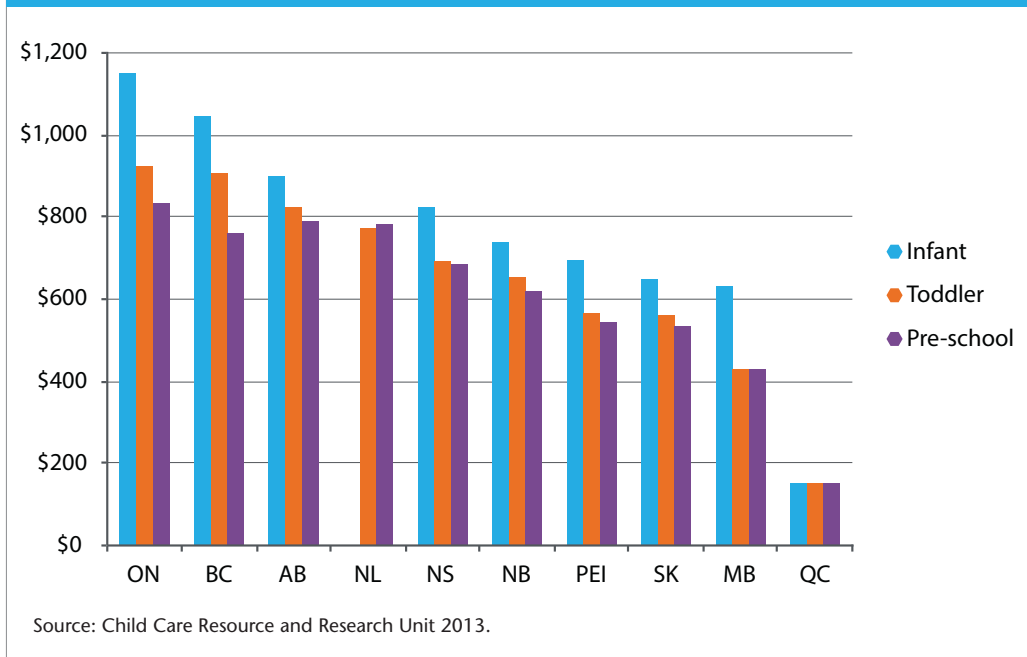
BC has the second-highest child care fees in the country after Ontario (Figure 2) and a major shortage of child care spaces (Figure 3).

Without affordable care for their children, many women are forced to abandon their career aspirations and withdraw from the labour force, and businesses lose skilled employees who don't return after parental leave.

14 *BC Early Years Annual Report 2012/13* reports BC's annual spending on early learning and child care in Appendix B. We add the value of the provincial and federal child care expense deduction—a de facto child care fee subsidy for parents—assuming 85 per cent of the deduction is claimed for children under age six, and 13 per cent of the federal deduction amount goes to BC (source: BC budgets and the federal Department of Finance Tax Expenditures and Evaluations, various years). Note this slightly overstates the public investment on children under six because the *Early Years* report counts subsidies for all family child care spaces as investments for children under six while some family child care is used by school-aged children.

15 Estimate for 2011/12 (Employment and Social Development Canada 2014).

Figure 2: Median monthly fees for full-time centre-based care by province, 2012



Low- and modest-income families are often left with thousands of dollars of out-of-pocket costs even after receiving a full subsidy.

A subsidy is available for low-income parents; however, the maximum subsidy for children from newborn to five years has been frozen since 2005. Income thresholds below which parents qualify for subsidies have not increased since 2005 either. Yet child care fees have increased considerably faster than general inflation for the past decade.¹⁶ As a result, low- and modest-income families are often left with thousands of dollars of out-of-pocket costs even after receiving a full subsidy.

For example, a family with one toddler qualifying for the maximum child care subsidy today would receive \$635/month, covering only two-thirds of median toddler fees of \$907/month in BC in 2012 (the latest year for which data is available). Child care fees are considerably higher in the larger cities, where most families with children live. In 2014, median toddler fees were \$1,215 per month in Vancouver, \$1,020 in Burnaby and \$977 in Surrey,¹⁷ leaving a low-income family receiving a maximum subsidy with-out-of-pocket expenses of \$4,000 to \$7,000 per year, depending on where they live.¹⁸ In contrast, the \$10 a day child care plan proposes an annual fee of \$2,500 that would be waived for those with family income under \$40,000.

The BC government recently committed to covering the full costs of child care for single parents receiving welfare who enroll in training programs and find work (for up to a year after they become employed). While a positive move, this signals clearly that the government is aware that even with the existing provincial child care subsidies, the cost of child care is a barrier to work for many parents, especially women.¹⁹

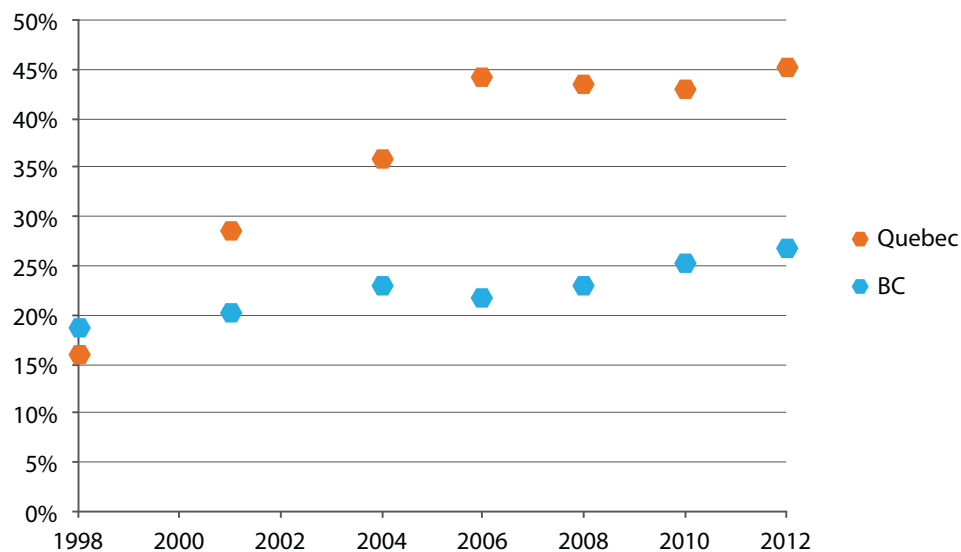
16 The data in Ferns and Friendly 2014 shows that the average annual fee increase between 1998 and 2012 was 1.6 per cent above inflation for toddler fees and 1.5 per cent above inflation for fees for pre-school age children.

17 Macdonald and Friendly 2014.

18 The child care expense deduction would reduce taxes by \$775 to \$1,350 (Surrey and Vancouver, respectively), leaving families receiving full subsidy with net out-of-pocket costs of \$3,100 to \$5,400.

19 The Single Parent Employment Initiative has been criticized for its small budget—only \$5 million per year over five years or \$312 per single parent family currently receiving welfare. There is also concern that even if more funding were made available, there are currently no regulated child care spaces for the 26,000 children of single-parent families receiving welfare.

Figure 3: Share of children ages 0–5 for whom a regulated child care space is available, BC and Quebec



Note: Child care spaces include centre-based spaces for children newborn to age five as well as regulated family-care spaces (all family-care spaces are assumed to be for children under six, even though some are likely filled by school-aged children).

Sources: Regulated space statistics from Child Care Resource and Research Unit, various years; number of children from Statistics Canada CANSIM Table 051-0001.

In addition to being very expensive, quality care is difficult to find in BC. There are spaces for only 21 per cent of all children from newborn to age five in centre-based care and another 6 per cent of children in regulated family-based care, assuming all family-based spaces are filled with children younger than six, which is an overestimate.²⁰ There are no statistics on the number of unregulated caregivers who care for children in their homes or in the children’s home. These child care arrangements can be cheaper, but there are no training requirements for the caregivers, no health and safety standards and no monitoring or oversight.

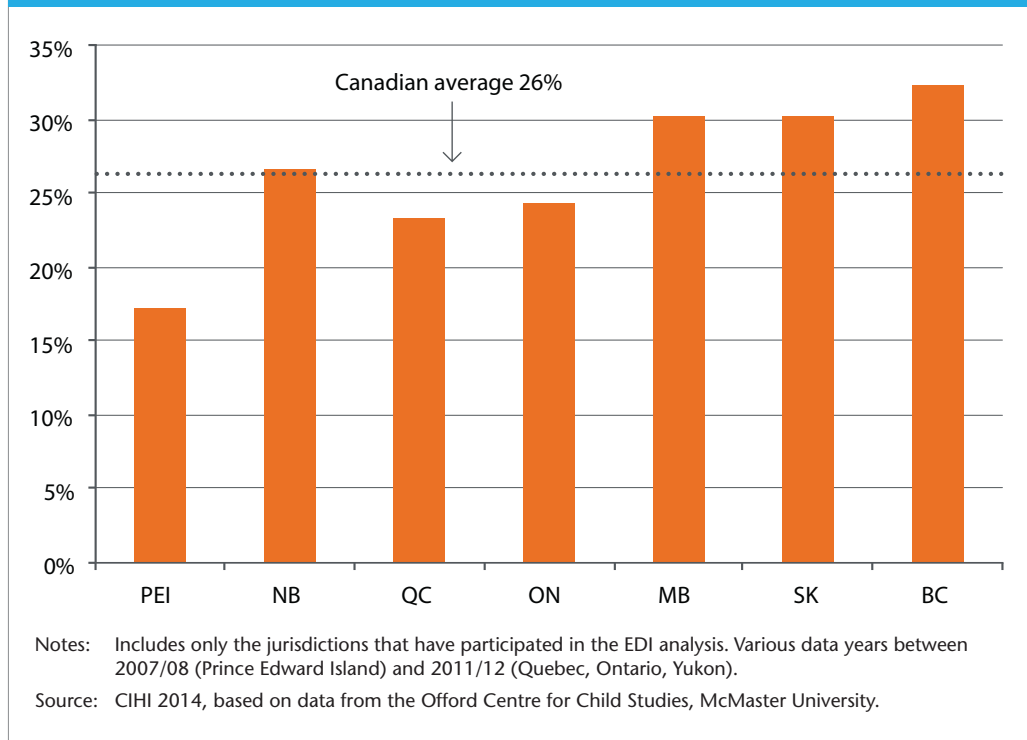
In addition to being very expensive, quality care is difficult to find in BC.

While the number of spaces available in BC is higher than it was in the mid-2000s, growth over the last 15 years has been very slow. In contrast, Quebec started with the same low availability of child care spaces as BC in 1998, but after investing in an affordable program, accessibility improved substantially with spaces now available for about 45 per cent of all children newborn to age five. Although this is currently the highest level of access to early childhood programs in Canada, it still falls short of what parents want and need, as demonstrated by waitlists for subsidized child care spaces in Quebec.

The BC government’s 2013 Early Years Strategy announced an additional investment in child care spaces with the goal of building 13,000 new spaces by 2021. While any increase is an improvement, 13,000 new spaces will not meet the needs of BC families. Even if all new spaces opened are for children newborn to age five, this would only accommodate another 5 per cent of the children in that age group (fewer, if the number of children in BC grows). Under the government’s current plan, BC would have regulated spaces for fewer than one-third of all children younger than five, far short of where Quebec is now, and there are no plans to make these spaces affordable.

²⁰ Child Care Resource and Research Unit 2013.

Figure 4: Children vulnerable in at least one area of development at age five



The wages of qualified early childhood educators in BC are too low, contributing to financial insecurity and poverty among the families of educators.

Finally, the wages of qualified early childhood educators in BC are too low, contributing to financial insecurity and poverty among the families of educators, many of whom are women with children of their own. A survey of early childhood educators found their median hourly wages were \$17 in 2012 (meaning half of early childhood educators are paid less than \$17 per hour and half are paid more).²¹ This was 19 per cent lower than the median hourly wage for BC employees in 2012, \$21 per hour.²² It is hardly surprising that high turnover and a shortage of qualified staff have been longstanding challenges in the sector, as well-trained early childhood educators often leave the field to move into the higher-paid public education system.²³

High fees and too few spaces are more than a personal hardship for BC parents scrambling to balance work and family, particularly for single parents; they come with high social and economic costs for all of us.

Research shows that 33 per cent of BC children arrive in kindergarten not meeting all early developmental benchmarks. Children struggling with these benchmarks²⁴ at age five are found to be developmentally vulnerable; that is to say they are more likely to experience future challenges in school and in life and are at risk of not reaching their full potential. Researchers estimate that early vulnerability above 10 per cent is biologically unnecessary and imposes significant social and economic costs on our communities.²⁵

21 Child Care Human Resources Sector Council 2013.

22 Statistics Canada, Labour Force Survey. CANSIM Table 282-0070.

23 Centre for Spatial Economics 2009.

24 HELP 2013. The five core areas of early child development identified by the Early Development Instrument are: physical health and well-being; language and cognitive development; social competence; emotional maturity; communication skills; and general knowledge. For more information, see <http://earlylearning.ubc.ca/edi/>.

25 Kershaw et al. 2009.

Recent analysis by the Canadian Institute for Health Information reveals that BC has the highest rate of child vulnerability of all provinces for which data is available.

Early childhood development experts at the Human Early Learning Partnership (HELP) at the University of British Columbia (UBC) have made a compelling case that a universal, quality child care program represents a key piece of a public policy strategy to reduce child vulnerability and give all children a good start in life.²⁶

²⁶ Kershaw et al. 2009, HELP 2011.

A feasible alternative: \$10 a day child care for BC

The plan provides a framework for transforming the existing patchwork of early education and child care services in the province into a comprehensive, quality, affordable child care system that integrates early learning and care.

The Community Plan for a Public System of Integrated Early Care and Learning, developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC, provides an excellent framework for action.

The *Community Plan*, also known as the \$10 a Day Child Care Plan, builds on the large body of international evidence about what works and has been fine-tuned after a large, cross-province community consultation process. It has been widely endorsed by a large number of community groups, non-profit organizations, businesses, social policy experts, local governments, boards of education and concerned citizens. The plan provides a framework for transforming the existing patchwork of early education and child care services in the province into a comprehensive, quality, affordable child care system that integrates early learning and care.

To achieve this system, public investments are required in three main areas: increasing capacity (the number of spaces available), ensuring affordability for families and enhancing quality of the programs.

Capacity planning is based on the goal that child care spaces should be available for all families who would like to access the program, whether full-time or part-time. This expansion would require capital investment in new facilities and retrofits of existing informal or unregulated spaces so they could become a part of the new child care system. See Appendix for more details.

Affordability is ensured by lowering parent fees to \$10 a day for full-time programs for children aged 18 months to five years and to \$7 a day for part-time programs.²⁷ Families with incomes under \$40,000 would have their fees waived. Participation in the programs would be entirely optional, but the system would be open to all children, with extra funding allocated to ensure social, physical and cultural inclusion.

²⁷ The plan calls for a start at 18 months because it is based on the family policy package described in HELP's 15 by 15 report, which proposes to extend parental leave to 18 months (Kershaw et al. 2009).

The quality of services would be ensured through standards and the use of monitoring and accountability mechanisms. Some of the key policy levers to encourage quality identified in OECD research include setting high ratios of early educators to children and staffing programs with well-educated early childhood educators who receive fair compensation for their work, both of which are built into the \$10 a day plan.²⁸

This last point is particularly important in light of the international evidence, which has shown that quality matters a great deal for early learning and care programs and has particularly large benefits for the well-being, health and learning outcomes of more vulnerable children.²⁹ Economics research suggests that investments in quality childhood programs are more cost effective than remedial education interventions later in life.³⁰

Yet quality is where policy-makers have been tempted to cut corners in order to contain costs in many countries. Quebec's provincial government has been criticized for failing to invest sufficiently in enhancing the quality of the child care services it funds, which may explain why some of the early studies found little evidence of positive educational outcomes for children in Quebec.³¹

Researchers at HELP have estimated that the \$10 a day plan—with its proposed investments in spaces, affordability and quality—would require about \$1.5 billion of new public funding once it is fully implemented to cover operating costs.³² This funding is on top of the current public investment in early education and child care programs in the province and net of the estimated parent fees that would be collected.³³

The \$10 a day plan recognizes that this transformation will take time, and it is flexible enough to accommodate various phase-in approaches. For the purposes of this report, we assume a 10-year implementation process, as shown in Table 1 (page 22). Our proposed implementation schedule includes firm commitments to all three areas from the beginning (affordability, quality and accessibility) but particularly to affordability—with affordability goals achieved at the halfway mark (five years in), while it takes the full 10 years to fully achieve the other two goals.

The public investment estimates presented in Table 1 do not constitute a precise costing of the program. They are careful estimates of the magnitude of the new funding needed at different points in time through the implementation. Further refinements to the numbers, based on up-to-date information on the number of existing child care spaces and facilities (which is not publicly available at the time of writing), are required to produce more detailed implementation plans and to cost them accurately.

Economics research suggests that investments in quality childhood programs are more cost effective than remedial education interventions later in life.

28 OECD 2012. Increasing the compensation of early childhood educators serves the dual purpose of reducing poverty and wage inequality among early childhood educators and improving the quality of the programs (by reducing turnover and encouraging qualified staff to stay in the sector instead of moving to the better compensated K–12 system).

29 OECD 2012; UNICEF 2008.

30 Heckman 2008.

31 For example, Baker et al. 2008. However, the study looked at data for the period 2000–2003, and this may have been too early to capture some of the positive developmental outcomes that would manifest as children enter school and later the workforce.

32 Kershaw et al. 2009. Additional funding would be required to expand the program to school-aged children (ages six to 12).

33 The costing was done in 2009, but the estimates of the new public funding required still hold because while the number of children under five in BC increased slightly, so did spending on early education with the introduction of full-day kindergarten for five-year-olds and some additional funding through the Early Years Strategy. All estimates of the cost of child care in BC in this report are in 2015 dollars.

Table 1: Proposed implementation of the \$10 a day child care plan in BC

	Phase 1 (now, Year 1)	Phase 2 (Year 3)	Phase 3 (Year 5)	Phase 4 (Year 7)	Phase 5 (complete, Year 10)
New public investment needed (cumulative)	\$175 million	\$400 million	\$775 million	\$1.15 billion	\$1.5 billion
Parent fees	\$10 a day for infant/toddler	\$10 a day for ages 3 to 5, phased in			\$10 a day for all children

Note: Costs in 2015 dollars. This implementation plan includes gradual build-out of child care spaces over the 10-year period. See Appendix for more details.

The \$10 a day plan recognizes that this transformation will take time, and it is flexible enough to accommodate various phase-in approaches.

The estimates presented in Table 1 exclude the capital costs of building new spaces and modifying existing spaces as required for the expansion of the program. The table shows only estimated ongoing operating costs, with a 15 per cent margin for forecast variance, as well as funds for regular monitoring and evaluation to provide accountability and allow for the implementation schedule to be adjusted as needed. Excluding the costs of building new spaces is in keeping with standard practice, as such expenditures should be treated as one-time capital costs and could be financed via borrowing, as we do with other infrastructure. Also excluded are the additional costs of training new early childhood educators through the public post-secondary education system.

The economic benefits of increased workforce participation of mothers

A RECENT ANALYSIS OF QUEBEC'S CHILD CARE PROGRAM found its impact on women's participation in the workforce alone was large enough to more than pay for the program costs.³⁴ Canadian economist Pierre Fortin and his colleagues at the University of Sherbrooke concluded that for every \$1 invested in the Quebec child care program, the provincial and federal governments were receiving \$1.47 in direct returns (with larger benefits for the provincial economy more broadly). These returns come from three main sources: higher tax revenues from mothers who rejoin the workforce, reduced social assistance for families with children (especially single-mother families who were able to leave welfare for work) and lower reliance on other income-tested benefits.

Fortin's research was groundbreaking because it was the first to quantify the large, and almost immediate, economic and fiscal returns from the resulting increase in mothers' participation in the workforce (or labour supply). These returns were found to be very large even though not all of the new affordable child care spaces in Quebec were used by newly employed mothers—some were accessed by mothers who were already working or who did not immediately join paid work (in Quebec, parents who do not work can also use the child care system).³⁵

Although the idea that family-friendly public policies are partly self-financing is not new, until Fortin's study was published, the prevailing perception in Canada was that the benefits of investing in quality child care came from the educational benefit it provided to children.³⁶ Thus, it was

A recent analysis of Quebec's child care program found its impact on women's participation in the workforce alone was large enough to more than pay for the program costs.

34 Fortin et al. 2012.

35 This is not necessarily a bad thing, as child care provides important social and educational benefits to children and allows parents time to pursue education or training and search for work.

36 For example, Burniaux et al. 2004 make the argument that the increase in female labour force supply would help pay for investments in family policy.

estimated that these benefits would not materialize until far off in the future, at least 15 to 20 years after the services were provided, which is the length of time it would take for participating children to enter the workforce.

The anticipated long delay between making the upfront investment and recouping the returns has been a significant barrier to action both in BC and across Canada (despite the well-documented social and economic benefits). However, if other provinces can expect large economic returns from implementing affordable child care programs similar to Quebec's, the case for making the initial investment becomes a lot harder to dismiss.

Using the analysis by Fortin et al. as a model, we can estimate what the direct economic and fiscal returns of a publicly funded child care program might be in BC. Of course, these are not precise forecasts, as there are differences in the economic conditions in BC today compared to Quebec's in 1997, when the child care plan was introduced. However, these estimates can serve as an indication of the size of benefits we may reasonably expect.

In 1997, Quebec mothers with young children were less likely than other Canadian mothers to be in the workforce, but by the mid-2000s their labour force participation rate exceeded the Canadian average by more than five percentage points.

Before the Quebec child care program was launched in 1997, the province's child care situation was very similar to that in the rest of Canada. Parent fees were high (though still somewhat lower than in other provinces), and there were few regulated spaces available. Starting in September 1997, Quebec dropped parent fees to \$5 a day for four-year-olds and established full-day kindergarten for five-year-olds. The program was extended to school-aged children the following year, and by fall 2000 the \$5 a day fee applied to all children (in 2004, the parent fee was increased to \$7 a day).³⁷ The number of subsidized child care spaces available grew quickly between 1998 and 2005 and then stabilized at a rate matching the growth in the number of children, as shown in Figure 3 (page 17).

Quebec also invested in improving the quality of the services available, introducing higher educational requirements for early childhood educators and raising wages in the sector to reflect the skill level of the workforce.

By the mid-2000s, Quebec's participation rate in child care programs was double that of other provinces, including BC. At the same time, the number of Quebec mothers in the workforce also rose, without negatively impacting the employment patterns of men.³⁸ Both the labour force participation and the employment rates of women with young children in Quebec began growing at a much faster rate (than both historical patterns and observed growth rates in Ontario and the rest of Canada) as soon as the child care plan was introduced.³⁹ In 1997, Quebec mothers with young children were less likely than other Canadian mothers to be in the workforce, but by the mid-2000s their labour force participation rate exceeded the Canadian average by more than five percentage points (Figure 5).

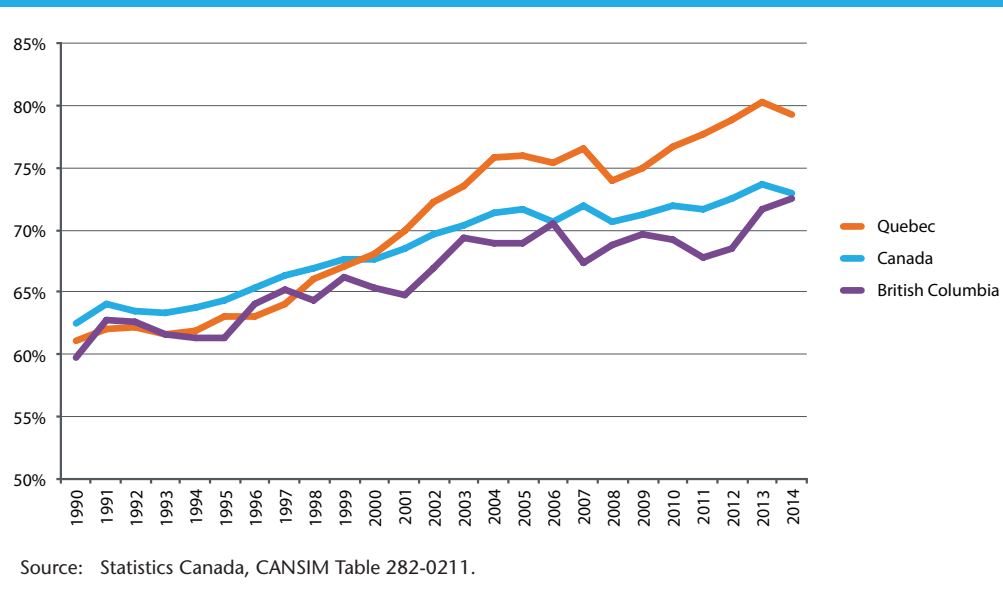
Pierre Fortin and his colleagues draw on findings from four different econometric studies that estimated the impact of Quebec's child care program on the employment rate of mothers of

37 There have since been other changes to the parent fees, including a move to a sliding scale parent fee as of spring 2015, but they were introduced after the period of analysis in Fortin's paper and their effects are not captured in the economic and fiscal returns found by Fortin.

38 The same pattern was observed across OECD countries: higher public investment in child care increased mothers' employment without affecting fathers' (or men's) employment (Jaumotte 2004; Hegewisch and Gornick 2011).

39 Fortin et al. use the Ontario experience to approximate what would have happened in Quebec if the publicly funded child care program had not been introduced. This is more accurate than a simple before-and-after comparison of women's employment rates in Quebec because the growth rate of Ontario's female employment rate helps us "control" for increases in the number of mothers working that could be expected even without affordable child care (given recent trends of increased female employment since the 1970s) and account for changing economic conditions in Canada (assuming they are similar in Ontario and Quebec).

Figure 5: Labour force participation rate for women with children under six years



young children. These studies used statistical techniques to separate the impact of affordable child care from other factors that typically influence a woman’s decision to work, including her age, level of education, type of family (single- or two-parent), the number of children the family has, whether they live in a rural or urban area, other family members’ income and other factors.

The four studies used data from two Statistics Canada surveys—the Survey of Labour and Income Dynamics and the National Longitudinal Survey of Children and Youth—and from slightly different years in the early 2000s, but their results were remarkably consistent (in terms of both size and standard deviation of the estimates).⁴⁰

Based on these studies, Fortin et al. conclude that Quebec’s child care program increased the employment rate of working mothers by 12 percentage points. In other words, while 70 per cent of Quebec mothers with young children worked in 2008, only 58 per cent would have been working if Quebec’s universal, affordable child care program had not been implemented.

In addition, Fortin et al. found that the impact of affordable child care on mothers’ likelihood to work continued even after their children began school. Mothers who used low-fee child care when their children were little were significantly more likely to be employed once their children started school than mothers who did not.⁴¹ This was particularly true for mothers who did not have a university education, likely because mothers with higher levels of education tend to return to work when their children enter school. This suggests that being able to keep a foot in the labour market has long-term benefits for the economic independence of women, particularly those with lower education levels.

These newly working mothers paid taxes and spent at least some of their earnings locally, immediately contributing to the Quebec economy and helping government recover some of the

These newly working mothers paid taxes and spent at least some of their earnings locally, immediately contributing to the Quebec economy and helping government recover some of the investment in affordable child care.

40 No studies we’re aware of have estimated the impact of Quebec’s program later than 2006/07. However, as the number of child care spaces available did not increase significantly since 2006 (as seen in Figure 3), it is reasonable to assume that the program has had no further impacts on mothers’ employment rate above those already seen by 2006.

41 Note that this is not due to subsidized child care being available for school-aged children, as it is the estimated difference in the employment rate of mothers who used low-fee child care when their children were young and those who did not, even though both groups had access to subsidized care for school-aged children.

Table 2: Estimated economic impacts of universal, affordable child care in BC
(modelled on the Quebec experience)

	Fortin et al.'s analysis, 2008 data for Quebec		2014 estimates for BC	
	Change in the employment rate	Number of people	Change in the employment rate	Number of people
Women with children under 6	12 p.p.	347,200	12 p.p.	197,200
Women with children aged 6-15	7 p.p.	400,100	7 p.p.	221,400
Increase in mothers' employment due to affordable child care	9.3%	69,700	9.4%	39,200
Total employment in the province		3,880,400		2,278,400
Increase in total provincial employment due to child care	1.78%		1.72%	
Average hours and productivity of the newly employed mothers compared to the average worker	95.60%		95.60%	
Net increase in provincial GDP due to increased mothers' employment	1.70%		1.64%	
Estimated BC GDP increase as a result of child care implementation				\$3.9 billion

Sources: Fortin et al. 2012* and author's calculations based on BC employment and population data for mothers from Statistics Canada's Labour Force Survey (CANSIM Table 282-0211) and 2014 BC GDP projections from the 2015 BC budget.

*In February 2015, Statistics Canada revised its Labour Force Survey estimates retroactively to 2001 so Fortin et al.'s numbers don't exactly match those in CANSIM Table 282-0211. The differences are small and do not change the analysis.

investment in affordable child care. Table 2 shows Fortin et al.'s estimates of the economic and fiscal benefits of Quebec's child care program and applies them to the BC context, using the latest available data.

Fortin et al. estimated that there were 41,700 mothers with children under six who were working in Quebec in 2008 and who would not have been working without the \$5/\$7 a day child care program.⁴² Similarly, 28,000 mothers of children aged six to 15 were estimated to be working only as a result of the low-cost child care program (7 per cent of the 400,100 mothers of children aged six to 15 in Quebec). Adding these two numbers gives us the total increase in mothers'

42 The employment rate of mothers is the percentage of the total number (or population) of mothers who are employed. A 12 percentage point increase in the employment rate implies that 12 per cent more of the total number of mothers are working (not the same as a 12 per cent increase in the employment rate): $41,700 = 12\% \times 347,200$ (all mothers with children under six in Quebec in 2008).

employment in Quebec: 69,700 working women. This represents a 9.3 per cent increase in the employment of all mothers and 1.78 per cent increase in the total provincial employment.

The last two columns of Table 2 apply the estimated impacts from Quebec to the BC context. If BC saw the same impact of affordable child care on maternal employment, we estimate there would be 39,200 more working mothers than there are today. This would translate into a 1.72 per cent increase in our total employment rate.⁴³

As the number of people working in an economy increases, the value of goods and services produced (or GDP) would grow in proportion to the increase in the number of people employed, provided they work as many hours and are as productive as existing workers.

Fortin et al. found that mothers who joined the workforce after Quebec's child care program was introduced worked on average the same number of hours as other workers in the province. For mothers with children younger than five, the employment impact of affordable child care was equally large among those with a university degree and those without, suggesting that their overall productivity would be the same as that of other workers in Quebec.

However, for mothers with children six to 15, the employment impact of child care was found to be larger for women with lower levels of education, who tend to earn lower wages. This suggests that the increase in their employment would lead to a smaller GDP bump. Fortin et al. argued that since workers with lower levels of education earned about 89 per cent of the average wage in Quebec in 2008, their increased employment would increase Quebec's GDP in proportion to those wages. This is how Fortin et al. arrived at the hours and productivity adjustment rate of 95.6 per cent and estimated that a 1.78 per cent increase in total employment driven by more mothers working would lead to a 1.7 per cent increase in provincial GDP.

We estimate that BC could expect to see an increase of 1.64 per cent in provincial GDP as a result of more mothers working.

Assuming a similar effect for affordable child care in BC, we estimate that BC could expect to see an increase of 1.64 per cent in provincial GDP as a result of more mothers working. This represents an increase in economic activity of \$3.9 billion.⁴⁴ This is a conservative estimate of the employment benefits of a provincial child care program as it does not account for the increased employment of early childhood educators to staff the newly built child care spaces.

In other words, if the economic benefits of implementing the \$10 a day child care program in BC are similar to those of Quebec's low-fee child care program, BC could expect to see a boost in economic activity of \$3.9 billion per year arising from the increased workforce participation of mothers of young children alone. This estimate captures the higher family incomes of newly employed mothers and the boost to local businesses in which they shop.

43 This is lower than Quebec's estimated 1.78 per cent increase because BC in 2014 had a lower fertility rate than Quebec in 2008.

44 This follows from $1.64\% \times \$238.7 \text{ billion} = \3.9 billion (based on BC government projections for provincial GDP in 2014 as reported in the 2015 BC budget, page 79).

Impact of the \$10 a day program on government budgets

More mothers being able to join the workforce in Quebec led to higher family incomes and in turn, higher income-tax revenues for the provincial and federal governments.

MORE MOTHERS BEING ABLE TO JOIN THE WORKFORCE in Quebec led to higher family incomes and in turn, higher income-tax revenues for the provincial and federal governments. More workers also translated into higher government revenues more broadly through higher payroll taxes, sales tax receipts and other fees. Further, increased economic activity in Quebec has led to higher tax revenues from local businesses that are now seeing higher sales and generating larger revenues.

Economists generally assume that government revenues increase roughly in proportion with GDP,⁴⁵ meaning that an affordable child care program in BC would raise government revenues at all levels by about 1.64 per cent. Applying this to current provincial and federal government revenues gives us an idea of what the direct fiscal returns of \$10 a day child care may be in BC.

We estimate that a 1.64 per cent increase in economic activity arising from more women being able to work would translate into a boost to direct and indirect government revenues of \$1.3 billion (\$630 million in provincial revenues and \$668 million in federal revenues).⁴⁶

45 Fortin et al. (2012) describe this as a “standard assumption” and cite documents produced by the Quebec Ministry of Finance that reflect this assumption in its budget. This is also the assumption used by the Department of Finance in Canada’s budget projections, which assume revenues grow in line with nominal GDP (Department of Finance Canada 2014).

46 We use BC’s own source revenues (total provincial revenues minus transfers from the federal government) for 2014/15 from the 2015 BC budget. Federal government revenues for the calendar year 2014 are from Statistics Canada, CANSIM Table 385-0032. We assume BC’s contribution to federal tax revenues to be 12.3 per cent (the average share observed for the period 2000–2009 from CANSIM Table 384-0004). This is likely a conservative estimate of what BC contributes to the federal treasury today, considering the large negative impact of low oil prices on some of the provincial economies.

Table 3: Estimated costs of implementing \$10 a day child care in BC, net of fiscal benefits to the provincial and federal governments

	Phase 1 (Year 1)	Phase 2 (Year 3)	Phase 3 (Year 5)	Phase 4 (Year 7)	Phase 5 (complete, Year 10)
Total new annual public funding needed (beyond fees)	\$175 million	\$400 million	\$775 million	\$1.15 billion	\$1.5 billion
Estimated increase in revenues to the BC government due to more women working (results in economic growth, more tax revenues, and less use of income-tested benefits)	Nil	\$140 million	\$280 million	\$420 million	\$630 million
Estimated increase in revenues to the federal government due to more women working and paying taxes	Nil	\$148 million	\$297 million	\$445 million	\$668 million
Net new public investment after accounting for federal and provincial fiscal returns (assumes federal-provincial co-operation on creation of the \$10 a day child care plan)	\$175 million	\$112 million	\$198 million	\$285 million	\$202 million
Net new public investment required from the BC government in case of no federal support	\$175 million	\$260 million	\$495 million	\$730 million	\$870 million

Fortin et al. argued that these estimates are conservative because they do not take into account the reduction in government expenditures resulting from reduced social assistance spending and lower cash transfers to families whose incomes increased after more women were able to enter the workforce. The introduction of affordable child care in Quebec was followed by a significant drop in the number of single-parent families on welfare (by more than half between 1996 and 2008) and a decrease in the poverty rates of single mothers and their children from 52 per cent in 1996 to 31 per cent in 2011.⁴⁷

Fortin et al. 2012 estimated that the reduced social assistance spending and direct transfers to lower income families in Quebec saved the provincial and federal governments approximately \$280 million.⁴⁸ To build in caution and keep our revenue projections on the low end of what may be expected, our estimate of the fiscal returns of \$10 a day child care in BC does not explicitly include provisions for savings in government expenditures as a result of better child care.

Table 3 compares the new public investment required for the \$10 a day plan with the estimated fiscal returns to the provincial and federal governments at every stage of implementation.

⁴⁷ Based on the Low Income Measure, Statistics Canada, CANSIM Table 202-0804.

⁴⁸ Fortin et al. 2012, Table 6. They had previously estimated that a 1.7 per cent increase in Quebec's GDP led to a \$2.2 billion increase in total government revenues; \$280 million represents 8 per cent of that.

An important consideration is the timing of this expected economic and fiscal boost of child care. Research by Fortin et al. reveals that strong impacts on the employment rate of mothers with young children were measured in Quebec as early as 2002, only two years after child care fees were dropped for all ages, when the expansion of child care spaces was far from complete. One study that estimated the impacts in both 2002/03 and 2006/07 found they were about 35 per cent larger in 2006/07, consistent with the 35 per cent increase in the number of publicly funded child care spaces between these two periods.⁴⁹ This suggests that BC can expect to start seeing economic and fiscal benefits of more mothers participating in the workforce within a year or two of the introduction of the \$10 a day plan, and that these benefits would grow as more child care spaces are created over time and fees are lowered for all children.

Given the similarities between Quebec's program and the \$10 a day plan for BC, it's reasonable to expect similar, gradual increases in mothers' employment rate in BC (see Appendix). This is how the timing of the fiscal returns of increased women's employment is modelled in Table 3 (page 29).

The analysis summarized in Table 3 shows that 10 years after the \$10 a day plan is introduced the revenues from additional employment of mothers would pay back 86 cents for every dollar of new public investment. Of that, 42 cents would go directly to the provincial government and 44 cents would go to the federal government, underscoring the case for federal investment in child care.

Recall that these are only the fiscal returns of more mothers participating in the workforce and do not capture the broader social and economic benefits of quality child care that are likely to accrue over time.⁵⁰ A complete account of the economic returns of child care should also include the benefits of participating in a quality child care program on child health and cognitive development, improved educational outcomes and labour market success in adulthood, benefits that have been well documented in the international literature.⁵¹ Government savings may arise, for example, in reduced demand for remedial programs in the school system, better health outcomes for children and reduced health expenditures from work-life conflict for parents with young children.

While these impacts are more difficult to estimate and take longer to be realized (often after the children become adults and enter the workforce themselves), the evidence suggests they are very large. Researchers at UBC's Human Early Learning Partnership, led by Paul Kershaw, estimate that the economic benefits from reduced childhood vulnerability in BC would reach \$160 billion to government alone and another \$425 billion to society more broadly over the working lives of children who benefit from the program.⁵²

We believe it is reasonable to expect the \$10 a day child care plan in BC to produce economic benefits of a similar magnitude as those of the Quebec child care program because the two programs have very similar characteristics. The economics research suggests that both the reduction in child care costs and the availability and quality of child care affect the employment decisions of mothers.⁵³ We find that Quebec's \$5 a day program and BC's \$10 a day program feature similar reductions in parental fees (about 75 per cent, as shown in the Appendix), which indicates their

Given the similarities between Quebec's program and the \$10 a day plan for BC, it's reasonable to expect similar, gradual increases in mothers' employment rate in BC.

49 Lefebvre et al. 2011.

50 For example, the \$10 a day plan proposes to increase the wages for early childhood educators to ensure that they are compensated fairly for the increased educational requirements of the program. This is likely to generate additional tax revenues and savings from reduced reliance on social support from the early childhood educators' families, who will now benefit from higher incomes.

51 For example, OECD 2011 and Goelman et al. 2008.

52 Kershaw et al. 2009.

53 See Jaumotte 2004, Baker et al. 2008, Haan and Wrohlich 2011 and Hegewisch and Gornick 2011.

impact on women's labour supply is likely to be similar. These issues are addressed in more detail in the Appendix.

It is important to note that the analysis by Fortin et al. of the Quebec child care program as of 2008 found that it fully paid for itself, while this is not what we estimate for BC. The reason for the difference is that BC's \$10 a day child care plan proposes to build a lot more child care spaces (and invest more in quality) than what Quebec's plan provided as of 2008, making the BC plan relatively more expensive.⁵⁴ It is possible that implementing the \$10 a day plan in BC would result in stronger employment effects on mothers than what Quebec experienced, thus generating higher economic and fiscal payoffs, but this remains to be seen.

54 The \$10 a day plan budgets for spaces available for about 63 per cent of all children newborn to age five, compared to Quebec's 45 per cent coverage. The average cost per space of the two programs is also slightly higher in BC, budgeting for the higher educational standards and more equitable compensation for early childhood educators, consistently associated with high-quality child care in the research (OECD 2012).

The case for a federal-provincial partnership on child care

Since the federal government stands to benefit significantly from the introduction of affordable child care in any province, it makes sense for it to also share the upfront costs of the program.

THE ANALYSIS BY FORTIN ET AL. brings attention to the important (and often overlooked) fact that fiscal returns from a universal child care program are shared between the federal and provincial governments, even if the program is entirely provincially funded. In Quebec, Fortin et al. found that 30 per cent of the total fiscal returns of affordable child care goes to the federal government. The share of returns going to the federal government is likely to be larger in other provinces where federal taxes represent a larger share of the total taxes paid by businesses and residents.⁵⁵

The modelling presented in the previous section suggests that in BC the federal/provincial split is close to 50/50, with the federal government taking in a slightly higher return than the province.

Since the federal government stands to benefit significantly from the introduction of affordable child care in any province, it makes sense for it to also share the upfront costs of the program. Ideally, costs would be shared in proportion to the returns received, with at least half of the costs of the program coming from the federal level of government.

A federal-provincial sharing of costs significantly reduces the net new public investment needed to finance the implementation of the program relative to what would be needed if a province financed the program alone, making it more likely that these investments get made. After accounting for the higher tax revenues from women's increased workforce participation to both the

⁵⁵ During the 1960s, the federal government offered provinces the opportunity to opt out of certain federal-provincial programs and deliver them entirely provincially. Quebec was the only province to do so. In exchange, the federal government reduced federal income taxes for Quebec residents and Quebec increased its provincial taxes by the same amount. As a result, the provincial/federal share of taxes paid by Quebec residents is quite different from what it is in other provinces. For more on the Quebec Abatement, see <http://www.fin.gc.ca/fedprov/altpay-eng.asp>.

provincial and federal governments, the net new operating costs required to run a fully implemented \$10 a day child care program are only approximately \$200 million per year, compared to the total cost estimate of \$1.5 billion per year. In other words, a universal, cost-shared child care system would almost pay for itself by enabling more women to return to work and to work closer to full-time hours. However, without federal participation, BC would need to raise an additional \$870 million to fund the full program, because the federal tax benefits could not be counted in a financing plan.

In addition, a federal-provincial partnership on child care would promote equality of opportunity across the country. It would provide all Canadian children with programs to give them a good start in life, extend to all mothers the opportunity to return to work if they so choose and reduce financial pressures on families with young children regardless of where they live.

Not so long ago, Canada recognized the federal responsibility for supporting and expanding early learning and child care programs. In 2005, the federal budget committed to investing \$5 billion over five years in such programs. Federal-provincial agreements were signed, committing to the development of detailed action plans to reflect the local realities in each province (except Quebec, which already had a child care program in place). A change of federal government in 2006 led to the cancellation of these agreements and the federal funding commitments. Since then, investment in early education and child care programs has stalled across Canada at less than one quarter of the investment levels recommended by the OECD.

A federal-provincial partnership on child care would promote equality of opportunity across the country.

Instead, the current federal government is relying on direct income transfers (i.e. the universal child care benefit) and tax credits, which are too small to meet the needs of families and do not reliably ensure that services like quality child care are available when needed.⁵⁶ The current federal government has made it clear it has no intention of changing course. However, the opposition parties have signalled a willingness to take federal responsibility in this important area should they find themselves in government, including a concrete proposal from the NDP to invest in creating one million affordable child care spaces across the country with a roughly 60/40 split between federal and provincial funding.

However, as Quebec's experience demonstrates, it is possible for a province to implement a program without federal support. The next section explores how this could be accomplished in BC.

⁵⁶ For a discussion of why family-friendly policies like child care and parental leave are more helpful for families who struggle to balance work and family life than direct income transfers and tax credits, and why they narrow both gender and income inequalities, see McInturff and Macdonald 2015.

Financing \$10 a day child care in BC in the absence of federal support

The economic benefits of mothers being able to return to work would partly pay for the program.

QUALITY CHILD CARE IS AN INVESTMENT with high social and economic returns for the participating children, their families (particularly their mothers) and their communities. The economic benefits of mothers being able to return to work would partly pay for the program, generating almost immediate returns to government in terms of higher taxes and lower reliance on income-tested benefits.

Assuming that the \$10 a day plan results in the same increases in mothers' employment rate in BC as occurred in Quebec, the program would require only \$200 million in new funding to finance the operations of the program once it's fully implemented (see Table 3 on page 29).

In the absence of federal support, the BC government would need to raise more money to finance the operations of an entirely provincial program—about \$900 million per year. This higher amount would be needed because if the federal government does not participate, the fiscal returns generated at the federal level (in the form of taxes and transfers) would not be part of the overall financing plan.

1. BROAD OPTIONS FOR FINANCING CHILD CARE

Even though \$900 million is a significant amount of new funds, it is only 2 per cent of the provincial budget, and the funds do not need to be found overnight. The initial investment needed for the first year of the \$10 a day plan is only \$175 million, and the funding requirements of the program grow gradually over the implementation period of 10 years, as shown in Table 4 (page 40).

These funds can be raised by several means. Fundamentally, the provincial government can finance new public services like the \$10 a day plan in any of three ways:

- Using existing surpluses/running deficits;
- Taking money away from other areas of the budget; and/or
- Raising additional revenues through taxes, fees or royalties.

BC is in a solid fiscal position to undertake the investment needed for a \$10 a day plan. We ended the last fiscal year with a significant surplus, projected to be close to \$900 million at budget time, with healthy surpluses expected over the next three years. We won't know the exact amount of the surplus until the public accounts are published in mid-July 2015, but it could well be larger than \$1 billion.

Instead of diverting the surplus to pay down public debt, at a time when debt levels are manageable and interest rates are at record lows, the funds could be invested in building a quality, affordable child care system.⁵⁷ In fact, the investment required to begin the implementation of the \$10 a day plan over the next three years could be entirely funded by BC's projected budget surpluses. Should surpluses continue in the future, they could be used to fund later phases of implementation as well.

However, the current budget surplus appears to be achieved by selling public assets and underfunding key public services. Overall government spending is budgeted to decline in real terms (adjusted for population and inflation) in each of the next three years. These spending patterns are unsustainable, and it is unlikely that significant surpluses would materialize beyond the next three years.

BC's debt-to-GDP ratio is one of the lowest in Canada, and Canada's debt-to-GDP ratio is, in turn, the lowest among G7 countries.⁵⁸ At this stage, BC can afford to run modest deficits for a number of years, if needed. However, outside of periods of economic slowdown, deficit financing is not the best way to pay for ongoing expenditures such as those of running a child care program. The provincial tax system should be raising sufficient revenues to cover the needs of public programs and services.

That said, government borrowing is a standard way to fund investments in infrastructure, as it allows for the upfront capital costs to be paid through taxes over the useful life of the project. Recall that in addition to these ongoing operating costs, the provincial government would need to finance the capital costs of building new spaces and modifying existing spaces as required for the expansion of the program.⁵⁹ Such expenditures should be treated as one-off capital costs and could be financed via debt as we do with other infrastructure.

The province could also—at least in theory—reallocate funds from other spending areas. The \$10 a day plan costing already budgets for some reallocation of public resources and assumes that all funds currently spent on early education programs for children newborn to five years and on parent subsidies for child care for children under six years would instead be channelled

BC is in a solid fiscal position to undertake the investment needed for a \$10 a day plan.

⁵⁷ For a more detailed analysis of BC's current fiscal position, see Ivanova 2014.

⁵⁸ See TD Economics' 2015 *Government Budget Balances and Net Debt* comparison tables for provincial debt-to-GDP ratios and IMF's *World Economic Outlook Database* for G7 debt-to-GDP ratios.

⁵⁹ Calculating these capital costs is beyond the scope of this study. It would require detailed regional planning to determine how many of the new and/or renovated spaces are in centres as compared to family homes and the associated capital costs of each—costs that would vary by region.

into the new \$10 a day child care program. In practice, however, fully funding the program by reallocating funds would require major damaging cuts to other public programs and services.⁶⁰

Earlier research by the Canadian Centre for Policy Alternatives (CCPA) indicates there is little room for reductions in the provincial budget. Indeed, our analysis shows that existing public services need more funding overall, not less. Our 2013 report *Reality Check on the Size of BC's Public Sector* finds that deep spending cuts and staffing reductions over the last decade have starved BC's public service to the point where key programs have been scaled back or dismantled.⁶¹ Little has changed since then, as annual spending increases to health and education budgets and to other key services fail to keep up with inflation and population growth.⁶² In fact, when measured as a share of the economy, provincial government spending is now at levels considerably lower than in the 1980s, and it is projected to continue to decline over the next three years.

This chronic underinvestment in public services has had real impact on the lives of many British Columbians, with negative consequences for class sizes and fees in schools, hospital overcrowding, lack of home and community care services for seniors and inadequate funding for environmental protection and monitoring, among others.

If BC charged taxes closer to the average for other Canadian provinces, we would easily create the budgetary room to implement \$10 a day child care.

In contrast, BC could raise considerable new revenues without undermining our economy through tax reform and modest tax increases. In a 2013 study Seth Klein and I carried out, we documented the steady erosion of BC's fiscal capacity since 2001, the result of a series of cuts to both personal and corporate taxes. BC now has the lowest income taxes in Canada for individuals earning up to \$122,000, the lowest corporate income tax rate and the third-lowest small business tax rate (after Manitoba and Saskatchewan). If instead BC charged taxes closer to the average for other Canadian provinces, we would easily create the budgetary room to implement \$10 a day child care.

Not only does BC have room to increase taxes, but financing child care via a well-thought-out mix of tax reforms will result in a fair distribution of costs. First, all sectors of society can be asked to pitch in, including both individuals and corporations, reflecting the broadly shared benefits of quality child care. Second, we can shift the costs facing parents from high upfront fees to a combination of low upfront fees (at the much more affordable rate of \$10 per day) and personal income taxes.

High child care costs put increasing pressure on families with young children at a time in their life when they are most stretched for resources instead of spreading out the costs over their working careers through slightly higher income taxes. High upfront fees are a de facto tax on mothers' wages, undermining mothers' ability to work and compromising women's economic independence and the financial security of their families. High fees also reduce access to quality early learning experiences when parents cannot afford to pay for them.

60 There may be more room for reallocating spending at the federal level, where policies such as income splitting provide expensive tax reductions to well-off families with a stay-at-home parent, and there are larger boutique tax credits that also disproportionately benefit higher-income families.

61 Ivanova 2013.

62 See *CCPA Submission to the BC Budget Consultations 2015* (Ivanova 2014) and our analysis of the 2015 BC budget (CCPA 2015).

2. RAISING NEW REVENUES—OPTIONS FOR TAX REFORM

Below are some examples of the range of tax reform options available, with estimates of the revenues each could raise.⁶³ This is not an exhaustive list. A larger array of revenue options and a more detailed explanation of why they are unlikely to impose large costs on the economy can be found in our 2013 CCPA report *Progressive Tax Options for BC*.⁶⁴

2.1 Personal income tax changes for upper-income earners

Personal income taxes should be an important part of the financing package because they are the most progressive element of our tax system and the best way to ensure that all British Columbians pay a fair share. Recent research from the OECD finds that the gains from economic growth in the 30 years before the 2008/09 Great Recession disproportionately benefitted the top 1 per cent in Canada, who captured 37 per cent of all growth.⁶⁵

There is a growing consensus that high levels of inequality are undermining societies and leading to weaker economic performance worldwide.⁶⁶ Increasing taxes on the highest earners is essential for tackling income inequality, which makes this a logical policy choice for raising government revenues. Investing the money raised in programs that enhance social inclusion and social mobility, such as the \$10 a day plan, would further strengthen the redistributive role of the provincial tax system and reduce inequality.

BC currently has a high-income tax bracket for taxable income over \$150,000 with a rate of 16.8 per cent. The tax bracket affects only the richest 2 per cent of BC tax filers and applies only to their taxable income above \$150,000—their income below that threshold is taxed at the same lower rates that apply to the rest of tax filers. This new bracket was introduced with the 2013 BC budget as a temporary two-year measure to help reduce the deficit, and it is set to expire after December 31, 2015. Making this top tax bracket permanent would raise about \$230 million per year.⁶⁷

A top tax bracket rate of 16.8 per cent is similar to what many other provinces charge on incomes in that range. Even with this top tax rate, BC's high-income earners would pay some of the lowest taxes in the country, because they will continue to benefit from lower tax rates on the first \$150,000 of income they earn. Only in Alberta would an individual with taxable income between \$150,000 and \$250,000 pay less income tax than in BC (see Appendix), and the gap has narrowed since their new government moved away from Alberta's flat tax.

The \$230 million per year raised by making the high-income tax bracket permanent would be sufficient to fund some of the earlier stages of implementation of the \$10 a day child care plan.

To fund later stages of the program, BC can introduce a second high-income tax bracket for the top 1 per cent of tax filers—individuals with taxable income over \$200,000. For example, setting the rate for this new tax bracket at 19.3 per cent would generate an additional \$235 million per

Increasing taxes on the highest earners is essential for tackling income inequality, which makes this a logical policy choice for raising government revenues.

63 Unless otherwise noted, all tax revenue estimates in this report are calculated using Statistics Canada's SPSPD/M model for the calendar year 2015. See Appendix for details.

64 Ivanova and Klein 2013.

65 OECD 2014a.

66 See OECD 2015, OECD 2014a, Berg and Ostry 2011, Ostry et al. 2014 and TD Economics 2014.

67 The 2015 BC budget estimates that the tax bracket would raise \$227 million in 2014/15 and \$176 million in 2015/16 when it will be in effect for only three of the four quarters of the year. The calendar 2015 includes one quarter of 2014/15 and the first three quarters of 2015/16, so the tax would generate $\frac{1}{4} \times \$227 \text{ million} + \$176 \text{ million} = \$232.75 \text{ million}$.

year, enough to provide the additional funding for Phase 4 of the \$10 a day plan. At 19.3 per cent, BC's top marginal tax rate would be squarely in the middle of what other provinces charge (and lower than in Ontario, Quebec, Nova Scotia and New Brunswick).

Again, because BC's high-income taxpayers benefit from lower income tax rates on the first \$150,000 of their taxable income, even with this new top tax bracket they would be paying average taxes for Canada.

The above two small increases in high-earners' personal taxes would raise over \$500 million per year, enough to cover more than half of the new investment required for the \$10 a day child care plan.

2.2 Corporate tax options

Businesses would benefit considerably from the \$10 a day child care program immediately and in the long run. They would no longer lose many qualified female workers who don't return after parental leave because they are unable to find quality child care they can afford. Businesses can also expect less absenteeism and higher productivity, as young parents are able to balance work and family with much less stress.⁶⁸ Kershaw and Anderson estimate that work-life conflict among employees with young children costs the BC business community upwards of \$600 million every year.⁶⁹

Businesses would benefit considerably from the \$10 a day child care program immediately and in the long run.

BC businesses would also benefit from the increased economic activity resulting from the higher family incomes in their communities with more mothers being able to work. And finally, quality child care would help nurture a more skilled and healthier future workforce, benefitting businesses in the long run.

Therefore, it is only fair to ask businesses to contribute to raising the funds needed to pay for the \$10 a day plan. Small corporate tax increases could generate about \$270 million while bringing BC's corporate taxes in line with what many other provinces charge.

BC's corporate income tax rate was reduced from 12 per cent to 10 per cent in 2008 with the introduction of the carbon tax. It was increased to 11 per cent as of 2014 to assist with balancing the budget and is the lowest of all provinces since Alberta increased its corporate income tax rate to 12 per cent. A 12 per cent corporate income tax rate would put BC squarely in the middle of the pack among all provinces and would raise \$214 million per year with minimal impact on economic "competitiveness."⁷⁰

Similarly, BC's small business tax rate was lowered with the introduction of the carbon tax, from 4.5 per cent to 2.5 per cent. It is currently the third lowest in the country. A small increase from 2.5 per cent to 3 per cent would preserve this third place, continue to compensate small businesses for much of the carbon tax they pay and raise approximately \$57 million per year for quality child care in BC.⁷¹

68 For more on the direct benefits of publicly funded child care to the business sector, see Coalition of Child Care Advocates of BC and Early Childhood Educators of BC 2014.

69 Kershaw and Anderson 2011.

70 The BC Ministry of Finance estimates that the reduction of corporate tax rate from 2008's 12 per cent to today's 11 per cent would cost the provincial government \$214 million in 2015/16, and costs would increase in future years as corporate profits grow (2015 BC budget, page 62).

71 The BC Ministry of Finance estimates that the reduction of small business tax rate from 4.5 per cent to 2.5 per cent would cost the provincial government \$227 million in 2015/16 (2015 BC budget, page 62). A 0.5 percentage point reduction would cost one-quarter of that, or \$57 million. Therefore, a 0.5 percentage point increase from 2.5 per cent to 3 per cent would raise \$57 million.

2.3 Eliminating boutique tax credits

A small amount of additional funds could be raised by eliminating several “boutique” tax credits that, in practice, mainly benefit upper-income earners. Only families who can afford the eligible fitness and arts expenses for their children benefit from the provincial child fitness and arts tax credits and the new children’s fitness equipment credit. And because these credits are *non-refundable*, only families whose incomes are high enough to pay provincial income taxes get a benefit. Additionally, these credits amount to very small savings to each family—\$25 for each of fitness and arts and \$12.50 for fitness equipment, and that’s only after spending \$500 on eligible programs per child for each of arts and fitness. Many families struggling with high child care and housing costs in BC are unable to afford the program fees to begin with. It is hardly surprising that research has found these tax credits do not increase children’s participation in extracurricular activities and that they reduce tax fairness by predominantly benefitting well-off families.⁷²

Eliminating these tax credits would raise \$11 million per year, and using the money for \$10 a day child care that would benefit all young children, making much better use of these public funds.

BC’s provincial income tax system includes a number of other tax credits, deductions and exemptions that primarily benefit higher-income individuals. These represent tax revenues that are not being collected (known as *tax expenditures*) and should be carefully reviewed to see if any others could be scaled back or eliminated.⁷³

2.4 All British Columbians pitching in via personal income taxes

The growing consensus among researchers is that quality child care produces large social and economic gains in terms of healthy child development, improved social inclusion, gender equality and economic prosperity now and in the future (as outlined in earlier sections of this report). These benefits are broadly shared by all of us in society, including those who would not directly use the new \$10 a day child care system.

All of us should pitch in a little to help raise the funds needed to invest in the healthy development of all BC children. The fairest way to do that is through small increases in personal income tax, the most progressive element of BC’s provincial tax system. The table following presents one example of how this could be done to raise \$140 million, the funds needed to implement the final phase of the \$10 a day program (when the broad-based benefits of child care would begin to materialize in BC).

In this example, the provincial non-refundable tax credit rate is increased to 5.1 per cent to match the tax rate in the bottom tax bracket. An individual with taxable income up to \$19,000 would continue to pay no provincial income tax.

The proposed tax increase amounts to less than \$12 more per year for an individual with taxable income of \$40,000 and less than \$80 per year for those with taxable income under \$90,000 (see Table 5). These increases are very small. Because the majority of British Columbians have taxable income in the bottom two tax brackets, small increases there allow significant funds to be raised.

All of us should pitch in a little to help raise the funds needed to invest in the healthy development of all BC children.

72 Research has mostly focused on the child fitness tax credit (Spence et al. 2010 and Fisher et al. 2013), but there is no reason to believe that results would be any different for the child arts tax credit, which is structured the same way.

73 A more detailed discussion on these tax credits can be found in the 2013 CCPA report *Progressive Tax Options for BC*.

Table 4: Current and proposed personal income tax rates for BC

Tax bracket	Applies to taxable income of	Current tax rate	Proposed tax rate	% of BC tax filers in each tax bracket*
1	Under \$37,869 with zero tax on the first \$19,000 of income (including basic personal amount and low-income tax reduction)	5.06%	5.1%	57%
2	\$37,870 to \$75,740	7.7%	7.8%	27%
3	\$75,741 to \$86,958	10.5%	10.7%	4%
4	\$86,959 to \$105,592	12.29%	12.6%	5%
5	\$105,593 to \$151,050	14.7%	15.1%	4%
6	\$151,051 to \$200,000	16.8%	17.1%	1%
7	Over \$200,000	16.8%	19.7%	1%

Note: The sixth tax bracket is currently the highest in BC and is set to expire after December 31, 2015. This paper proposes to make it permanent and to introduce another tax bracket for taxable income over \$200,000.

*Approximate. Based on Canada Revenue Agency T1 Final Statistics for 2011 tax year (Final Table 2: All returns by total income class, BC).

Table 5: What the proposed tax increases would amount to for individuals of different income levels

Taxable income	Proposed tax increase	Tax increase as % of income	Taxable income	Proposed tax increase	Tax increase as % of income
\$10,000	Nil	0%	\$90,000	\$80	0.09%
\$20,000	\$4	0.02%	\$100,000	\$111	0.11%
\$30,000	\$7	0.02%	\$125,000	\$206	0.16%
\$40,000	\$12	0.03%	\$150,000	\$306	0.20%
\$50,000	\$22	0.04%	\$200,000	\$457	0.23%
\$60,000	\$32	0.05%	\$300,000	\$857	0.29%
\$70,000	\$42	0.06%	\$500,000	\$1,657	0.33%
\$80,000	\$56	0.07%	\$1,000,000	\$3,657	0.37%

Note: For taxable incomes of \$150,000 and up, these increases are over the previously proposed tax brackets with rates of 16.8% on incomes between \$150,000 and \$200,000 and 19.3% on incomes over \$200,000.

Note that even with the small tax increases proposed BC would continue to have the lowest income taxes of all provinces for individuals with taxable income under \$120,000 (see Table A5 in the Appendix).

2.5 Other tax options

Other possibilities include changes to property taxes (including a progressive property tax), the carbon tax or resource royalties.⁷⁴ Investment in a child care program would complement a green jobs strategy financed by an expanded carbon tax, as proposed in earlier CCPA research.⁷⁵ The build-out of child care spaces embedded in the \$10 a day plan would create a number of new family-supporting jobs that are relatively green. Plus, a significant investment in child care would ensure that a green industrial strategy is not limited to traditionally male-dominated sectors like energy, construction and transportation. This would help reduce gender inequities in the economy, as earlier CCPA research has argued that economic development policies that focus on male-dominated sectors widen the economic gap between men and women, constraining the financial security and economic independence of women.⁷⁶

3. PHASING IN THE TAX REFORMS

The modest tax reforms presented above do not all need to be introduced at once. Assuming a 10-year implementation plan, many of the tax increases would not come into effect for five or more years, by which point BC communities would already be seeing the early benefits of a new child care system.

The table on page 42 is one example of how the reforms could be phased in, starting with high-income tax measures, adding in corporate tax increases at the mid-point of implementation and a small, broad-based tax increase at the final stage of introducing the program, in year 10.

These estimates assume a similar increase in women's labour market participation in BC as was observed in Quebec after the introduction of its publicly funded child care system in the late 1990s. Should the impacts observed in BC prove to be smaller (and in turn the fiscal returns to the provincial government smaller), the revenue gap could comfortably be made up by adjusting the tax measures outlined above (which represent very modest increases as is).

4. NET IMPACTS FOR FAMILIES WITH YOUNG CHILDREN

When the \$10 a day plan is fully implemented, BC parents would still face upfront costs for using child care services, but these costs would be significantly lower than what they are today. Researchers at HELP estimate that parents using child care services would pay \$250 million annually via the \$10 a day fees, after accounting for the fee waivers for low-income families.⁷⁷ These fees are netted out along with all current government spending on early learning programs to

A significant investment in child care would ensure that a green industrial strategy is not limited to traditionally male-dominated sectors.

74 However, there is a strong case to be made that resource royalties should not be used to finance operating spending but saved for future generations in a Norway-style heritage fund.

75 Lee 2012.

76 McInturff and Macdonald 2015.

77 Generation Squeeze 2013.

Table 6: Options for staged financing of the \$10 a day child care plan in BC (in the absence of federal support)

	Revenues required	Revenue options (estimated revenues raised in brackets)
Years 1 to 4	\$175 million to \$260 million	<ul style="list-style-type: none"> • Fund through existing surplus OR • Restore the high income tax bracket at \$150,000 and make it permanent (~\$230 million) AND • Eliminate boutique tax credits (~\$11 million)
Year 5	+ additional \$235 million	<ul style="list-style-type: none"> • Small corporate income tax increases (~\$270 million)
Year 7	+ additional \$235 million	<ul style="list-style-type: none"> • Introduce a new top tax bracket at \$200,000 (the top 1%) with a tax rate of 19.3%. (~\$235 million)
Year 10 (full implementation)	+ additional \$140 million	<ul style="list-style-type: none"> • Small personal income tax increases for all tax brackets (~ \$140 million)
Total	\$870 million	\$886 million

Note: Tax revenue estimates calculated using Statistics Canada’s Social Planning and Simulation Database and Model (SPSD/M) and information from the 2015 BC budget. See Appendix for methodology details. Revenues required are net of fiscal returns accruing to the BC government (from Table 3). Note that the costing model assumes that all funds currently spent on early learning and care programs for children newborn to age five, including on parent subsidies, would be reallocated to the new \$10 a day program.

The women who benefit the most from the program by being able to return to work or transition from part-time to full-time work would cover a large share of the costs of a new child care program.

arrive at the net new operating costs of \$1.5 billion, but it’s important to remember that families continue to partly pay for the services they use.

With the tax reforms proposed above, the net new public costs of child care (\$1.5 billion) would be shared as follows:

- 42 per cent contributed via economic activity and higher provincial revenues generated by mothers of young children who enter the workforce but who would not otherwise be working or paying income tax;
- 32 per cent paid by high-income British Columbians through new top tax brackets;
- 18 per cent paid by the business sector through slightly higher corporate taxes;
- 9 per cent paid by all British Columbians pitching in through a small personal income tax increase.

In other words, the women who benefit the most from the program by being able to return to work or transition from part-time to full-time work would cover a large share of the costs of a new child care program through the taxes they pay directly and the economic activity they generate

Table 7: Net savings from \$10 a day plan in BC for different family types

	Single parent, income \$30,000, one child age 4	Two parents, income \$90,000, one child age 4	Two parents, income \$150,000, one child age 4	Two parents, income \$90,000, one child age 2 one child age 4
Current situation				
Child care fees	\$9,744	\$9,744	\$9,744	\$21,384
Child care subsidy	-\$6,600	Nil	Nil	Nil
Child care expense deduction (federal and provincial)	-\$1,064	-\$1,712	-\$2,376	-\$3,490
Boutique child tax credits	Nil	-\$63	-\$63	-\$127
Out of pocket expense	\$2,080	\$7,969	\$7,305	\$17,767
\$10 a day child care				
Child care fees	Nil	\$2,500	\$2,500	\$5,000
Child care expense deduction (federal)	Nil	-\$375	-\$550	-\$750
Proposed BC income tax increase	\$4	\$36	\$113	\$38
Out of pocket expense	\$4	\$2,161	\$2,063	\$4,288
Net savings for the family	\$2,076	\$5,808	\$5,242	\$13,479
Savings as % of income	7%	6%	3%	15%

Note: Calculated for families with wage income only (most income from investments is taxed at lower rates). No deductions or credits other than the basic personal amount, CPP and EI premiums and the maximum amounts of the child arts, fitness and fitness equipment tax credit. The \$10 a day scenario assumes the elimination of the provincial child care expense deduction and the boutique child tax credits (the federal child care expense deduction remains, but the eligible amount to deduct is lower as a result of the lower fees paid). Based on tax brackets and rates known as of May 15, 2015.

in the local economy (their now higher family incomes become revenues for local businesses that are able to sell more, expand, employ more staff, etc.).

Families with young children and working parents would see immediate savings from being able to access affordable child care that will more than offset the additional taxes they have to pay (Table 7). Savings would be greater for those with younger children as child care fees for infants and toddlers are much higher than those for children over three years of age. Families with more than one child in child care would see even larger savings.

Table 8: Net savings from \$10 a day plan in BC for a two-parent family with one child and a stay-at-home mother who is able to start work

	Without \$10 a day plan	With \$10 a day plan
Current income and costs		
Employment earnings		
Parent 1 (mother)	Nil	\$45,000
Parent 2 (father)	\$60,000	\$60,000
Increased family income (before tax)		\$45,000
Increased expenses and taxes:		
Child care fees		\$2,500
Income tax on the newly earned income (provincial and federal)		\$9,179
Additional EI and CPP premiums		\$2,900
Reduction in Canada child tax benefit		\$900
Reduction in BC early childhood benefit		\$66
Elimination of boutique child tax credits		\$63
Proposed BC income tax increase		\$51
Increased family disposable income (after taxes and child care expenses)		\$29,341
<p>Note: Calculated using the same assumptions used in Table 7. The income tax on the additional earned income includes the reduction of the federal Family Tax Cut (also known as income-splitting for families with children) and the additional taxes owed on the taxable universal child care benefit.</p>		

British Columbians who don't have young children and the business community would enjoy the broader social and economic benefits of raising a healthier generation of children in the province.

The child care fees shown in Table 7 and Table 8 are based on median fees for BC in 2012 and projected forward to 2015 assuming annual fees increases equal to the average annual increases observed in median fees over the period 1998 to 2012.⁷⁸ Families living in urban areas like Vancouver, Victoria and Surrey pay higher fees than the provincial median and would see larger savings.

⁷⁸ According to parent fee data in Ferns and Friendly (2014), the average annual fee increase of toddler fees in BC was 1.6 per cent above inflation every year while fees for children older than three rose by 1.5 per cent above inflation every year between 1998 and 2012.

While savings from reduced child care fees are significant for all families with children in child care, the benefits of the new program would be largest for families with a mother who would like to work but cannot find a quality child care space or cannot afford one. Table 8 models the financial situation of a family with a stay-at-home mother who is able to start work after the introduction of the \$10 a day plan. Assuming that each parent earns close to the average wages for BC men and women working full-year full-time, the family would see an increase in disposable income after taxes and child care fees of more than \$29,000. In one of the most expensive provinces in Canada, this is a significant amount that would make a big difference to a family's quality of life. Note also that the family is helping pay for the child care it is using through higher contributions to the provincial and federal purse (taxes on the extra income and lower eligibility for child benefits).

British Columbians who don't have young children and the business community would enjoy the broader social and economic benefits of raising a healthier generation of children in the province. These benefits are harder to quantify but are very significant, according to a growing body of international research.

Conclusion

We need a change in priorities to give our children a good start in life.

BC MUST MAKE IT A PRIORITY to invest in a quality child care program. The evidence is compelling: high-quality early childhood education has a number of social and economic benefits beyond improving children’s outcomes; it promotes social inclusion, advances gender equality by allowing mothers to return to work and strengthens the economy. BC and Canada are laggards by international standards, investing far less than what is required to ensure all children can thrive. Small enhancements to the status quo are not sufficient—we need a change in priorities to give our children a good start in life.

The call for increased public investment is supported by a diverse group of organizations, from child care advocates to family physicians, early childhood development experts, TD Bank’s chief economist and many others.⁷⁹ During the most recent provincial budget consultation, the bipartisan (and government-dominated) committee of elected representatives unanimously recommended that BC “provide funding and support for the development and implementation of a child care plan.”⁸⁰

Federal leadership and financial support are important, but in their absence it is economically feasible for provinces alone to build their own quality early child care and education systems, as this report demonstrates.

This report examined how British Columbia could implement and finance a publicly funded, affordable child care program, using the model of the *Community Plan for a Public System of Integrated Early Care and Learning* developed by the Early Childhood Educators of BC and the Coalition of Child Care Advocates of BC (also known as the \$10 a day plan). If the economic benefits of implementing the \$10 a day child care plan in BC are similar to those of Quebec’s

79 TD Economics published a report on the benefits of early childhood education, co-authored by their chief economist (TD Economics 2012) and titled its accompanying press release “Make Early Childhood Education a High Priority.” In 2014, the Royal College of Physicians and Surgeons of Canada called for more public investment in early childhood programs (RSPSC 2014). Many other businesses and organizations have endorsed \$10 a day child care in BC.

80 Legislative Assembly of BC 2014.

low-fee child care program, BC could expect to see a boost in economic activity of \$3.9 billion per year arising from the increased workforce participation of mothers of young children alone.

Building on the research of Fortin et al. in Quebec, we estimate that the \$10 a day plan could repay 86 cents of every new public dollar invested in direct returns to provincial and federal governments through increased workforce participation of mothers with young children alone after 10 years (when fully implemented). These returns would be split half and half between the provincial and the federal governments, which is a compelling reason for federal/provincial cost sharing on child care.

Nonetheless, it is also entirely feasible for BC to implement a quality child care program in our province in the absence of federal support. In the short term, projected budget surpluses could also be used to finance the early stages of implementation. However, our analysis suggests that it is more effective to raise new revenues, and there is no shortage of reasonable options for doing so in ways that improve tax fairness. This report presents some examples of tax changes that could generate the needed dollars and suggests how they could be phased in at different stages of the implementation plan.

Under our proposed financing plan, families that directly benefit from child care would still be paying for a large share of the program, not through exorbitant fees up front but through a combination of affordable parent fees, the progressive income tax system and (for those mothers who are now able to return to work) through taxes on the incomes they now earn.

We find that small, affordable increases in personal and business taxes—the former with a particular emphasis on higher-income earners—would raise the revenues we need to provide quality early education and child care for all children in BC. There are many other ways to raise the same revenues, but we believe that whatever options are selected, they should also improve tax fairness, reduce income inequality and ensure that all sectors of society pitch in to reflect the broadly shared benefits of quality child care. This is the model Canada uses to fund schools, and it makes sense to extend the same logic to early childhood education, given all the research on the wide-ranging social and economic benefits from making quality programs available in younger ages.

Our current approach to early learning and care with its unaffordable fees, insufficient spaces and low wages for early childhood educators is unfair and unnecessary. It ignores the compelling evidence of large and long-lasting benefits of early childhood education and care. Implementing the \$10 a day child care plan would benefit children and families, promote social inclusion and reduce gender inequality. It would also boost our economy now and into the future. It is a wise investment of public funds, an investment whose time has come.

Our current approach to early learning and care with its unaffordable fees, insufficient spaces and low wages for early childhood educators is unfair and unnecessary.

Appendix

1. Implementation schedule for the \$10 a day child care plan in BC

The following implementation schedule has been used as a baseline of the analysis. It outlines the targets and timelines for reducing parent fees, increasing capacity and improving the quality of services delivered, consistent with the long-term vision embedded in the *Community Plan for a Public System of Integrated Early Care and Learning*. It is based on the costing model developed by Lynell Anderson of the Coalition of Child Care Advocates of BC with researcher Dan Rosen and refined by researchers at HELP. Anderson further refined the model to assist in developing a proposed implementation plan for this study.

The \$10 a day plan proposes to maximize the use of existing public space, including community centres and libraries as well as school facilities.

The number of total child care spaces needed for the full implementation of the \$10 a day plan for children younger than six is approximately 169,000 based on the plan's costing model, updated with the number of children in BC in 2014 (original model is based on an older population count). The number of new spaces needed is based on the latest publicly available information about existing child care spaces in BC, as outlined below.

We estimate that there are about 46,650 total full-working-day spaces for children under six in BC. This leaves a gap of 122,350 spaces, including the 21,014 part-time spaces in preschool programs, which would need to be modified to support even part-time participation in the workforce by those children's mothers.⁸¹

The estimated 122,350 spaces needed would be provided through a combination of building new facilities and modifying existing ones. There are also a number of unregulated family care spaces (for which there are no publicly available statistics) that could be brought into the regulated \$10 a day system at a much lower cost than building new spaces from scratch. This would require support for the caregivers to acquire additional training and opportunities for professional development, as well as some funding for infrastructure upgrades.

The \$10 a day plan proposes to maximize the use of existing public space, including community centres and libraries as well as school facilities. This would lower the capital costs required to increase the number of child care spaces.

⁸¹ Many preschool programs are very short, offering activities for just two or three hours per day.

Table A1: Proposed implementation plan

	Phase 1 (Year 1)	Phase 2 (Year 3)	Phase 3 (Year 5)	Phase 4 (Year 7)	Phase 5 (complete, Year 10)
New public investment	\$175 million	\$400 million	\$775 million	\$1.15 billion	\$1.5 billion
Quality improvements (including educational and professional development requirements for staff and increased compensation)	Raise education standards for providers. Average wage \$18/hr	Ongoing funding for PD. Average wage \$20/hr	Average wage \$22/hour	Average wage \$24/hr	Average wage \$25/hour
Number of total new spaces funded (including modifying existing very part-time or unregulated spaces)	2,000	22,500	66,000	98,100	122,350
Parent fees	\$10 a day for infant/toddler	\$10 a day for ages three to five, phased in		\$10 a day for all children	

Table A2: Funded licensed child care spaces for children under 6 in BC, 2012/13

	Full-time	Part-time
Group child care, newborn to 36 months	7,885	
Group child care, 3–5 years	25,985	
Preschool		21,014
Licensed family child care*	11,090	
Group child care, multi-age*	1,690	
Total	46,650	21,014

Based on data from Ministry of Children and Family Development's British Columbia's Early Years Annual Report, 2012/13. The data is based on the number of spaces a facility is licensed to offer and that receives government child care operating funding for children enrolled in those spaces (as of July 30, 2013).

*Family care spaces and group multi-age care spaces are also open to children of school age. We estimate the allocation of spaces in these programs to children under six based on provincial regulations about the number of children a provider can care for (we assume five out of every seven spaces in family care and three out of every four spaces in multi-age group care are filled with children under six).

This model is based on the latest available publicly accessible data, which unfortunately is dated and not very detailed, so it represents a preliminary estimate of what is needed. Further refinements (and access to better data) are required to produce more detailed implementation plans and to cost them accurately.

2. Can we expect public investment in \$10 a day child care in BC to produce economic benefits as large as those that affordable child care has produced in Quebec?

The Quebec child care program introduced in September 1997 is not exactly the same as the \$10 a day child care plan proposed for BC, and the economic context of BC in 2015 is different from what Quebec experienced in the late 1990s, so it is legitimate to wonder how comparable the two programs are. The economic literature suggests that the reduction in child care costs and the availability and quality of child care (or at least the perceived quality) all affect the employment decisions of mothers.⁸² This is why it is important to review the timing of the fee reductions, space expansion and quality investments in the two child care programs.

One notable difference is that in Quebec the parent fees were dropped for school-aged children first and it took three years for these low fees to be extended to all younger children. In contrast, the proposed implementation plan for \$10 a day child care envisions dropping fees for younger children first and takes slightly longer (five years instead of three) to apply these low fees to all children under six. The delay in dropping fees for some age groups in BC may have an impact on how early the fiscal and economic benefits of the program materialize, but it does not seem likely to affect the total benefits after full implementation.

Fortin's paper reviews statistical analysis by Canadian economists who found strong impacts on the employment rate of mothers with young children as early as 2002, only two years after parent fees were dropped for children of all ages, and the full impact was measured in 2006/07, six years after all fees were dropped (similar timing to full implementation in BC, which is proposed to be five years after all fees are dropped).

What about the difference in fees? In Quebec, parent costs was set to \$5 a day until 2004 when they increased to \$7 a day. This is lower than the fee proposed in BC (\$10 a day), even after accounting for inflation. However, parent fees have historically been lower in Quebec than in the rest of Canada, and so \$5 a day in Quebec in 1998 represented a similar reduction in median parent fees for child care as \$10 a day would be in BC (see Table A3).

As Table A3 shows, parental savings in Quebec and BC are similar in relative terms, and in actual dollars they would be considerably higher for BC families, which suggests that child care fees are likely a bigger barrier to the labour force participation of women in BC today than they were in Quebec in 1998. Thus, it's not unreasonable to expect low-cost child care to be an incentive for BC mothers of young children to enter the workforce that is as strong as (or even stronger than) what was seen in Quebec.

Another similarity between the two programs is that they both feature a fast expansion of child care spaces (accessibility). In Quebec, the number of spaces for newborns to five-year-olds rose by about 16,000 per year between 1998 and 2005, after which the expansion slowed down. The number of spaces more than doubled in seven years, from 82,300 to 200,100, according to the

⁸² See Jaumotte 2004, Baker et al. 2008, Haan and Wrohlich 2011 and Hegewisch and Gornick 2011.

It's not unreasonable to expect low-cost child care to be an incentive for BC mothers of young children to enter the workforce that is as strong as (or even stronger than) what was seen in Quebec.

Table A3: Parental cost savings from publicly funded child care in Quebec and BC

	Infants (newborn to 17 months)	Toddlers (18 months to 3 years)	Preschoolers (3 to 6 years)
Quebec			
Median monthly fees, 1998	\$477	\$455	\$440
\$5 a day monthly fees	\$109	\$109	\$109
Parent savings (as % of costs)	77%	76%	75%
BC			
Median monthly fees, 2012	\$1,047	\$907	\$761
\$10 a day monthly fees	\$208	\$208	\$208
Parent savings (as % of costs)	80%	77%	73%

Sources: Child Care Resource and Research Unit 2000 and 2013.

Child Care Resource and Research Unit's *Early Childhood Education and Care in Canada* reports.⁸³ By 2005, there were spaces for about 44 per cent of children newborn to five years old (as shown in Figure 3 on page 17).

The \$10 a day plan for BC proposes an even bolder ramp-up schedule, moving to a total of 169,900 spaces over 10 years (when the program is fully phased in). This would provide enough spaces for 63 per cent of BC children from newborn to five years old, considerably more than Quebec had (though BC would also be starting from a slightly better place, with spaces for about 27 per cent of children compared to 16 per cent in Quebec in 1998).

The fact that the proposed space expansion in BC is larger than what was done in Quebec is another reason to believe that the fiscal and economic benefits of publicly funded child care would be at least as large, if not larger, in BC.

Given Quebec's experience of an immediate impact of child care on the employment rate of mothers with young children, which gradually increased over time, we model the estimated returns of child care in BC as a linear function of the total returns, reaching the full amount in year 10, when the program is fully implemented. To be cautious in the estimation, we project no returns in the first year (even though there were impacts as early as year 1 in Quebec). Table A4 (page 52) presents the estimates.

⁸³ Child Care Resource and Research Unit various years.

Table A4: Estimated fiscal returns from \$10 a day child care in BC, by year

	Fiscal returns to the BC government	Fiscal returns to the federal government	Total fiscal returns
Year 1	Nil	Nil	Nil
Year 2	\$70 million	\$74 million	\$144 million
Year 3	\$140 million	\$148 million	\$288 million
Year 4	\$210 million	\$223 million	\$433 million
Year 5	\$280 million	\$297 million	\$577 million
Year 6	\$350 million	\$371 million	\$721 million
Year 7	\$420 million	\$445 million	\$865 million
Year 8	\$490 million	\$519 million	\$1.01 billion
Year 9	\$560 million	\$594 million	\$1.15 billion
Year 10	\$630 million	\$668 million	\$1.30 billion

3. Are the increases in the employment rate of mothers with young children found in Quebec feasible in BC, given our current employment rates?

Similarly to Quebec, BC has typically had lower labour force participation rates for mothers with young children and lower employment rates for these women than most other Canadian provinces. Since 1976, when data from the Labour Force Survey was first available, BC has always been in the bottom half of provinces according to these indicators (our best rank was fifth in 2006).

Between 2005 and 2013, the employment rate of BC women with young children hovered around 65 per cent, which was one of the lowest in the country. It has increased rapidly over the past two years.⁸⁴ It's not clear whether this trend will persist or whether we will see a decline in 2015,⁸⁵ but in 2014, the employment rate of mothers with young children was 68.3 per cent (it's currently in the middle of the pack, sixth highest in Canada). A 12 percentage point increase would put it at 80.3 per cent, which is higher than Quebec's 75 per cent but only slightly higher than PEI's 78.5 per cent (and slightly lower than the rates common in Scandinavian countries, over 80 per cent). This is a feasible employment effect to expect in BC, and even more so if the recent jump in women's employment proves temporary.

84 All statistics in this section of the Appendix are from Statistics Canada's Labour Force Survey, CANSIM Table 282-0211.

85 Monthly data show a decline since January; however, there is quite a lot of variability in the data so we would have to wait and see.

The employment rate of women with children aged six to 15 in BC was 75.8 per cent in 2014, the lowest among all provinces. An increase by 7 percentage points would bring it up to 82.8 per cent, only slightly higher than the current employment rate in Quebec (82.3 per cent). In recent years, employment rates of 84–85 per cent for this group of women have been observed in Manitoba and Saskatchewan. This suggests that a 7 percentage point increase in their employment rate in BC would be entirely feasible.

4. Methodology for estimating the revenues raised from different tax policy changes in BC

Whenever possible, this paper uses official government estimates of the revenues generated by different policy changes. The 2015 BC budget provides the following estimates:

- The temporary top income tax bracket at \$150,000 is estimated to raise \$227 million in 2014/15 and \$176 million in 2015/16, when it will be in effect for the first three quarters of the fiscal year. The calendar 2015 includes one quarter of 2014/15 and the first three quarters of 2015/16, so the tax is estimated to generate a total of \$233 million per year ($1/4 \times \$227 \text{ million} + \176 million).
- The reduction of general corporate income tax rate from 12 per cent to 11 per cent is estimated to cost \$214 million in 2015/16 (page 62).
- The reduction of the small business corporate income tax rate from 4.5 per cent to 2.5 per cent is estimated to cost \$227 million in 2015/16 (page 62). Since the tax is a flat rate on taxable income, it can be calculated that each 0.5 percentage point reduction costs \$57 million.
- The BC child fitness and arts tax credits are estimated to cost \$8 million in 2015/16 (page 62).
- The new BC children's fitness equipment tax credit is estimated to cost \$3 million (page 53).

When official government estimates are not available, this paper uses Statistics Canada's Social Planning and Simulation Database and Model (SPSD/M), version 22.0, to estimate the revenue impact of changes to the BC provincial income tax system in 2015.⁸⁶

The SPSPD/M contains a detailed database of 100,000 representative individuals in 40,000 families, drawn from tax, the census and survey data sources. This is the same database used by governments in Canada when they analyze the impact of proposed tax changes and by the Parliamentary Budget Office to provide independent analysis on government policy.

There are data discrepancies between the SPSPD/M and the BC budget: the total amounts of provincial income taxes paid by individuals in the SPSPD/M (\$8.22 billion in 2015) do not match the provincial income tax revenues projected in the 2015 BC budget (\$7.948 billion in 2015/16). Some of that is due to the fact that the SPSPD/M estimates are based on calendar years while the provincial budget reports tax revenues on an April to March fiscal year basis (and thus excludes revenues from the top tax bracket at \$150,000, which expires after December 31, 2015). To

⁸⁶ The assumptions and calculations underlying the simulation results presented in this report were prepared by the author. The responsibility for the use and interpretation of these data is entirely that of the author.

correct for the SPSPD/M's potential overestimation of provincial taxes, we express our estimates of revenues generated from each tax scenario as a percentage of the total income tax bill and then use the aggregate income tax revenue amounts from the BC budget to arrive at a dollar estimate for the additional revenues generated by each tax scenario. The adjusted revenue estimates are rounded to the nearest \$5 million.

The SPSPD/M is a static model and does not take into account any changes in taxpayers' behaviour in response to changes in taxes. However, we believe such behavioural changes to be relatively minor.⁸⁷ This analysis should not be considered a comprehensive forecast of the change of government revenues, which are sensitive to general economic conditions; rather, it is meant to highlight the level of magnitude of additional revenues that can be raised with each tax change.

5. Interprovincial personal income tax comparison

See opposite page for table.

⁸⁷ See Part 4 in Ivanova and Klein 2013.

Table A5: Interprovincial personal income tax comparisons—2015 and proposed BC income tax measures

Taxable income	BC current	BC proposed measures	AB	SK	MB	ON	QC	NB	NS	PEI	NL
\$10,000	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
\$20,000	\$52	\$55	\$59	\$349	\$1,016	\$447	\$311	\$382	\$858	\$1,088	\$242
\$30,000	\$873	\$880	\$991	\$1,373	\$2,051	\$1,222	\$1,680	\$1,584	\$1,752	\$2,001	\$1,491
\$40,000	\$1,448	\$1,460	\$1,923	\$2,398	\$3,233	\$1,843	\$3,222	\$2,693	\$3,187	\$3,234	\$2,448
\$50,000	\$2,184	\$2,206	\$2,855	\$3,544	\$4,435	\$2,836	\$4,904	\$4,110	\$4,623	\$4,548	\$3,646
\$60,000	\$2,945	\$2,977	\$3,838	\$4,824	\$5,691	\$3,742	\$6,545	\$5,575	\$6,116	\$5,911	\$4,882
\$70,000	\$3,715	\$3,757	\$4,838	\$6,124	\$7,105	\$4,657	\$8,182	\$7,057	\$7,783	\$7,466	\$6,132
\$80,000	\$4,604	\$4,660	\$5,838	\$7,424	\$8,845	\$5,833	\$9,819	\$8,540	\$9,450	\$9,136	\$7,462
\$100,000	\$6,938	\$7,048	\$7,838	\$10,024	\$12,325	\$9,011	\$13,633	\$11,844	\$12,842	\$12,476	\$10,122
\$125,000	\$10,478	\$10,683	\$10,338	\$13,274	\$16,675	\$13,364	\$18,943	\$15,974	\$17,217	\$17,066	\$13,447
\$150,000	\$14,153	\$14,458	\$12,838	\$17,008	\$21,025	\$17,716	\$24,251	\$20,368	\$21,592	\$21,659	\$16,897
\$200,000	\$22,531	\$22,987	\$17,838	\$24,508	\$29,725	\$27,201	\$34,734	\$30,868	\$32,092	\$30,844	\$23,922
\$250,000	\$30,931	\$31,537	\$22,838	\$32,008	\$38,425	\$37,303	\$45,216	\$41,368	\$42,592	\$40,028	\$31,072
\$300,000	\$39,331	\$42,687	\$27,838	\$39,508	\$47,125	\$47,568	\$55,699	\$51,868	\$53,092	\$49,214	\$38,222
\$500,000	\$72,930	\$82,087	\$47,838	\$69,508	\$81,925	\$88,627	\$97,629	\$105,743	\$95,092	\$85,954	\$66,822
\$1,000,000	\$156,929	\$180,587	\$97,838	\$144,508	\$168,925	\$191,275	\$202,454	\$234,493	\$200,092	\$177,804	\$138,322

Notes: Calculated for single individual with wage income only (most income from investments is taxed at lower rates). No deductions or credits other than the basic personal amount, CPP/QPP contributions and EI premiums. The Ontario amounts include the Ontario Health Premium. Quebec amounts are net of the 16.5 per cent federal tax abatement to ensure comparability with other provinces. This is similar to Table A4 in the 2015 BC budget but includes rates known as of May 15, 2015, and extends the comparison to higher income levels.

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